

**PROMOTING ECONOMIC RECOVERY:
EXAMINING CAPITAL MARKETS
AND WORKER PROTECTIONS
IN THE COVID-19 ERA**

VIRTUAL HEARING
BEFORE THE
SUBCOMMITTEE ON INVESTOR PROTECTION,
ENTREPRENEURSHIP, AND CAPITAL MARKETS
OF THE
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U.S. HOUSE OF REPRESENTATIVES
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**PROMOTING ECONOMIC RECOVERY:
EXAMINING CAPITAL MARKETS
AND WORKER PROTECTIONS
IN THE COVID-19 ERA**

Tuesday, July 14, 2020

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INVESTOR PROTECTION,
ENTREPRENEURSHIP, AND CAPITAL MARKETS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 12:01 p.m., via Webex, Hon. Brad Sherman [chairman of the subcommittee] presiding.

Members present: Representatives Sherman, Maloney, Scott, Himes, Foster, Meeks, Vargas, Gottheimer, Porter, Axne, Casten, Ocasio-Cortez; Huizenga, Stivers, Wagner, Hill, Emmer, Mooney, and Steil.

Ex officio present: Representative Waters.

Chairman SHERMAN. The Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets will come to 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.

Before we begin today's hearing, I want to remind Members of a few matters, including some required by the regulations accompanying H.Res. 965, which established the framework for remote committee proceedings.

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 have finished speaking. The staff has been instructed to only mute Members and witnesses as appropriate, when not being recognized by the Chair, to avoid inadvertent background noise. If a Member is having technical difficulties with the video function, they can participate with audio only. In that case, the Member will not be counted towards a quorum or vote. Members are reminded that all House rules relating to decorum and order apply to this remote hearing.

Without objection, at the request of Representative Axne, I would like to submit three letters in support of H.R. 5933 for the record:

one from a group of investors managing over \$800 billion; one from a group of NGOs; and one from small business organizations.

Without objection, it is so ordered.

Today's hearing is entitled, "Promoting Economic Recovery: Examining Capital Markets and Worker Protections in the COVID-19 Era."

I will now recognize myself for 4 minutes for an opening statement.

Since the start of COVID-19, millions of Americans have suffered severe economic hardship. As the Federal Reserve has reported, more than 20 million Americans have lost jobs due to COVID-19. And as Fed Chair Jerome Powell recently testified before this committee, the rise in joblessness has been especially severe for lower-wage workers, for women, for African Americans, and for Hispanics.

While we can be thankful that recently there has been a decline in unemployment claims, and that the national unemployment rate is, "down to 11.1 percent," we are going to have a long road to recovery.

During today's hearing, we will examine the business practices and corporate-governance decisions that have been adopted in light of the COVID-19 epidemic, and their impact on American workers.

In the past 3 years, we have seen publicly traded corporations spend over \$2 trillion on stock buybacks. If this capital was in the hands of corporations, they would be better-positioned to deal with the current downturn. Now, many of these companies are announcing layoffs of employees.

Of the 20 million who are unemployed, 19.8 million are unemployed in the private sector, many of them with publicly traded corporations.

The crisis has also highlighted a number of ways in which employers don't adequately provide for their employees. In a global pandemic, 8.4 million Americans remain uninsured, and 36.6 million do not have paid sick leave. Paid sick leave is particularly important because it is not only critical for that worker; it is critical for the entire society. If you are sick, stay home. If there is somebody in your household who may have COVID, stay home until you can get a test and get the results of that test.

But our economic incentives don't buttress the public health concerns, because many Americans do not have sick leave, or used up their sick leave before the pandemic. The Families First Coronavirus Response Act (FFCRA) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act dealt with employers with between 50 and 500 employees. But that leaves virtually all of the publicly traded corporations, that are the subject of this hearing, without any Federal mandate to provide sick leave, so many do not, and as a result, people have to choose between a paycheck and staying home because they may have COVID. This is obviously terrible public health.

We are also going to discuss a number of important pieces of legislation. Today, I am particularly focused on the limitations that we imposed on those companies getting direct Federal loans. At a minimum, these companies are supposed to abstain from stock buybacks and dividends. The idea that we would give money to a

company as a loan, and instead of supporting the business, that money goes out to shareholders in stock buybacks, is simply outrageous. And yet, we are told that the Fed is planning to, in effect, make direct loans, but package them as being the single purchaser of an issuance of publicly tradeable bonds. That is nothing more than a ruse.

The CARES Act provided some incentive and direction to the Fed to deal with a number of issues, including supporting minimum wage and supporting unions, but it was very clear that Federal money lent directly to a company should not be used for stock buybacks.

With that, I look forward to hearing from our witnesses. I now yield 5 minutes to the ranking member of the subcommittee, Mr. Huizenga, for his opening statement.

Mr. HUIZENGA. Thank you, Mr. Chairman. There is no doubt that the last several months have upended the livelihood and well-being of millions of American families throughout the United States. With almost every State under stay-at-home orders, everyone has been affected by this pandemic. Not only has this affected our daily lives, but it has certainly impacted our capital markets as well.

Undoubtedly, these have been uncertain times for American investors and market participants. During the first quarter of 2020, the pandemic sent shock waves through our economy, as well as our capital markets, which led to unprecedented volatility.

This turmoil was highlighted by sharp price declines, yet spikes in volume across equity markets, resulting in markets having the worst performance since the financial crisis as the first quarter came to a close.

In April, the virus and efforts to contain it contributed to a record 14.7 percent unemployment rate. April's unemployment rate was 10.3 percentage points higher than the previous month, which resulted in the largest month-to-month increase to date.

The passage of the CARES Act helped mitigate the crisis. The CARES Act included major programs, such as the Paycheck Protection Program (PPP), which, as of the end of June, allowed nearly 4.8 million small business loans to be approved, resulting in saving an estimated 50 million jobs, and at least 72 percent of the small business payroll in all 50 States.

The Paycheck Protection Program played a critical role in my west Michigan district by supporting more than 236,000 jobs. Because of the PPP, more small businesses were able to make payroll, and more employees were able to receive paychecks, instead of battling the broken unemployment system in my home State of Michigan.

Although we saw significant market volatility early in the crisis, markets recovered significantly, having undergone the toughest test to date. While there is certainly more ground to be gained, I believe our capital markets have responded accordingly.

Since the outbreak of the COVID-19 pandemic, the SEC has [inaudible] ability accordingly.

Additionally, they established an internal cross division of COVID-19 [inaudible], the central point for managing and coordinating the Commission's efforts to better monitor and respond to

the effects of the pandemic on markets, issuers, and investors, as well as assisting other regulators and public sector officials.

Although our capital markets have stabilized and unemployment rates are thankfully dropping, we need to focus on policies and reforms to lift our economy, enhance growth, and get people back to work. Congress needs to create and foster an environment that encourages entrepreneurship and innovation, while removing regulatory hurdles and slowing growth for our public companies.

We must work to improve and expand access to the capital markets, help grow our small businesses, and increase investment opportunities as well as choices for Main Street investors in the hopes of growing their savings and creating a brighter and more prosperous retirement.

In today's challenging global economy, the strength of our capital markets is vital to long-term economic growth. However, the current regulatory burdens and bureaucracy only stifles our small business growth and hinders the U.S. ability to compete on a global stage, predominantly with China.

I look forward to discussing more of the ways to reignite our economy, and to help get our small businesses back up and running, as well as to get Americans back to work.

And with that, Mr. Chairman, I would like to submit a written statement from the ranking member of the full Financial Services Committee, Ranking Member McHenry, for the record. And with that, I yield back.

Chairman SHERMAN. Without objection, it is so ordered.

I now recognize the Chair of the Full Committee, the gentlewoman from California, Chairwoman Waters, for 1 minute.

Chairwoman WATERS. I want to thank you, Chairman Sherman. The coronavirus pandemic has had an unprecedented impact on our nation's workers, capital markets, and economy. As more than 20 million Americans have lost their jobs, people of color have disproportionately been affected. Fully half of Black adults are now unemployed. And now, many of the critical relief measures Congress provided in March are expiring, including unemployment insurance and the eviction and foreclosure moratorium.

But this economic pain is not shared equally. The stock market and Wall Street have largely recovered their early losses. And despite receiving unprecedented support from the government, more companies are not providing PPE or hazard pay for front-line workers, and others are laying off workers by the thousands, as they pay their executives and shareholders handsomely.

So, I look forward to discussing legislative proposals to force companies to do what they should have done from the beginning: truly protect American workers. And I yield back the balance of my time.

Chairman SHERMAN. Thank you. Today, we welcome the testimony of four witnesses: Dr. Camille Busette; Ms. Anne Simpson; Dr. William Spriggs; and Mr. Neil Bradley. I will provide the introduction for each of these witnesses, and then recognize them in turn.

Dr. Busette is director of the Brookings Race, Prosperity and Inclusion Initiative, and is a senior fellow in governance studies with affiliated appointments in economic studies and metropolitan policy. Among her prior roles, she was the inaugural head of the Of-

Office of Financial Education at the Consumer Financial Protection Bureau (CFPB).

Ms. Simpson serves as director of the Board of Governance and Strategy for the California Public Employees Retirement System, CalPERS, which I believe is the largest pool of investment capital in the United States.

She is also a member of the SEC's Investor Advisory Committee, a public company accounting board oversight investor advisory group, and the Leadership Council of the Robert F. Kennedy Center for Justice and Human Rights.

Dr. Spriggs serves as the chief economist at the AFL-CIO, and as a professor and former Chair of the Department of Economics at Howard University. In his role with the AFL-CIO, he chairs the Economic Policy Working Group and the Trade Union Advisory Committee to the Organization for Economic Cooperation and Development, and serves on the board of the National Bureau of Economic Research.

Finally, Mr. Bradley serves as executive vice president and chief policy officer of the U.S. Chamber of Commerce. Before joining the U.S. Chamber of Commerce, Mr. Bradley was president of Chartwell Policy Solutions, a research analysis and advisory firm on public policy issues.

The 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 you to respect the members' and other witnesses' time by wrapping up your oral testimony. And without objection, your entire written statements will be made a part of the record.

Dr. Busette, you are now recognized for 5 minutes to give your oral presentation.

STATEMENT OF CAMILLE BUSETTE, SENIOR FELLOW AND DIRECTOR OF THE RACE, PROSPERITY, AND INCLUSION INITIATIVE, THE BROOKINGS INSTITUTION

Ms. BUSETTE. Thank you, Chairman Sherman. Good afternoon, Chairwoman Waters, Ranking Member McHenry, Subcommittee Chairman Sherman, Subcommittee Ranking Member Huizenga, and members of the subcommittee. It is an honor to participate in today's hearing on capital markets and emergency lending in the COVID-19 era.

The 2020 COVID-19 pandemic has triggered the deepest downturn in output and employment since World War II. Americans have experienced the downturn broadly across sectors, yet unequally across racial groups and categories of workers. Blacks, Latinos, and Native Americans, along with low-wage workers, have borne the health and financial costs of this pandemic.

With the CBO now projecting real gross domestic product to recover its pre-pandemic level only by the middle of 2022, policymakers should be thinking now about how not only to address urgent economic issues, but also how to position the U.S. economy for a broad-based and equitable rebound that harnesses the potential of the tens of millions of Americans who are currently unemployed or underemployed.

To position the economy for a robust recovery from this particular downturn, Congress and other policymakers must craft pol-

icy and fiscal responses that address the particular characteristics of this COVID-19 economic recession. Briefly, what we think of as a public health crisis has also deepened an existing equity crisis for Blacks, Latinos, and Native Americans.

In addition, the pandemic recession specifically threatens the financial and general well-being of tens of millions of Americans workers. Those characteristics of this recession demand policy solutions that actively reduce racism and the growing inequality that has been the most recent hallmark of the pre-pandemic economy. Those solutions should focus on three broad efforts.

First, closing the racial wealth gap. This includes charging the Federal Reserve with taking its policies to lowering the Black unemployment rate until it matches the White unemployment rate, further supporting Black and minority-owned businesses by providing short-term liquidity, and by incentivizing lending and addressing banks' concerns about the risk of lending to underserved small businesses. And finally, by thinking about how to craft payment to Black families, that are designed to remunerate them for the effect of public policies intended to exclude them from participating in the economy.

The second solution for generating a broad-based recovery is including wages and opportunities for upward mobility for Americans who earn low wages. This includes authorizing an automatic stabilizer that kicks in when the economy is in recession, and a continuation of the additional \$600-per-week unemployment insurance that was part of the CARES Act.

When drawing from the Families First Coronavirus Response Act, Congress should mandate that all employers of low-wage workers provide paid leave. Finally, Congress should consider raising the Federal minimum wage by \$5 per hour.

The third solution for generating a broad-based recovery is eliminating the existing health disparities that are prevalent in low-income communities of color. Congress can provide incentives to States and local governments to prioritize easily-accessed healthcare centers, and to require that their medical professionals are certified in the provision of care in a culturally sensitive manner.

So, while there is a pervasive rhetoric about returning to normal, that is, to the immediate pre-pandemic past, what I want to impress upon you today is that a robust American economy will require that we do not return to status quo ante, because the status quo ante has meant the perpetuation of racism in our economy, as well as the continuation of financial and health insecurity for almost half of the American workforce.

We, therefore, should work to establish a set of goals that simultaneously speak to the breadth and the quality of recovery. A high-quality recovery is one that puts the U.S. in a position to accelerate economic growth by generating jobs that provide economic security across a wide range of sectors, and by addressing the disparate economic consequences of the pandemic on communities of color and on low-wage workers. Thank you.

[The prepared statement of Dr. Busette can be found on page 57 of the appendix.]

Chairman SHERMAN. Ms. Simpson, you are now recognized for 5 minutes.

STATEMENT OF ANNE SIMPSON, DIRECTOR, BOARD GOVERNANCE AND STRATEGY, CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

Ms. SIMPSON. Thank you. Chairman Sherman, Ranking Member Huizenga, and members of the subcommittee, thank you for the opportunity to testify at today's hearing on behalf of CalPERS. We applaud and support the subcommittee's focus on building a sustainable, inclusive, and competitive economy in repairing the damage done by the COVID crisis.

In this testimony, I will provide a brief overview of CalPERS' investment principles, highlight our approach to human capital management, and offer some suggestions on how we move forward.

As Chair Sherman said, CalPERS is the largest public defined benefit pension fund in the United States, with fiduciaries managing nearly \$400 billion in global assets on behalf of almost 2 million public employees, retirees, and beneficiaries, to support their retirement and their health needs. Nothing could be more important.

Our responsibility to pay benefits decades into the future requires that we take a long-term, multigenerational view when assessing performance. And we are not only long-term investors; CalPERS pays around \$25 billion in benefits, cash, each year to our retired members. And nearly 60 cents of every dollar paid in those benefits comes from investment returns. This means that our members depend upon safety and soundness in the capital markets for their retirement security.

To meet our investment goals, CalPERS needs to earn 7 percent, risk-adjusted returns across the portfolio for the long-term. And to achieve those returns, CalPERS is guided by its fiduciary duties of prudence, care, and loyalty, whilst minimizing costs to the employers.

To help us with this goal, our board has adopted investment beliefs which recognize the importance of today's topics in this hearing in regard to long-term fiduciaries. One example: CalPERS investment belief number 4 states that long-term value creation requires effective management of three forms of capital: financial; physical; and, most important, human.

This is reflected in our strategic plan for sustainable investment, which focuses on improving corporate reporting, and within that, we have worked in partnership with the Human Capital Management Coalition. Their work has led to a petition to the SEC on disclosure around these topics, recognizing that the research demonstrates that disclosure is an essential condition for sound investment, for effective and consistent corporate accountability, and sustainable economic growth.

The SEC's Investor Advisory Committee, of which I am a member, subsequently made recommendations on human capital management disclosure. These include issues of tremendous relevance to today's hearing: the stability of the workforce, including voluntary and involuntary turnover, and internal hire and promotion rates; the safety of the workforce, including frequency, severity,

and lost time due to injuries, illness, and fatalities; and the percentage of first-tier suppliers that were audited for health and safety compliance; furthermore, average hours of training per employee per year; also race, ethnicity and gender, diversity data, and standardized measures of employee satisfaction.

All of these recommendations are based on outstanding research that has been done in the field to demonstrate the relevance to investors. This has been echoed by a joint public statement by SEC Chair Clayton, and the Director of the Division of Corporation Finance, Bill Hinman, who said that company disclosures should respond to investor interest in: one, where the company stands today operationally and financially; two, how the companies COVID-19 response, including its efforts to protect the health and well-being of its workforce and its customers is progressing; and three, how its operations and financial condition may change as our efforts to fight COVID-19 progress. And they ruefully acknowledge that historical information may be relatively less significant.

However, the current corporate disclosure regime does not provide investors with the information we need to assess drivers of value and sources of risk. In part, this is because reporting has not kept pace with changes to the economy. We believe the current reporting regime requires improvement in terms of the scope of regulatory disclosure, and should apply to all listed companies, so that investors can assess risk and return across their portfolio.

We ask you and the SEC to consider proposals to expand and improve disclosure, whilst protecting investor rights. We appreciate the language included in the FSGG appropriations legislation that would prevent the SEC from moving to finalize proposals that we consider would impair the ability of investors like CalPERS to fulfill our fiduciary responsibilities.

These are vitally important issues in light of the current pandemic. We appreciate being included in this discussion, and stand ready to work with you to modernize corporate reporting so that it better serves the needs of investors and contributes to the strengthening of the capital markets on which so many rely. Thank you, Chair Sherman and Ranking Member Huizenga, for inviting CalPERS to contribute to this hearing. We look forward to your questions.

[The prepared statement of Ms. Simpson can be found on page 67 of the appendix.]

Chairman SHERMAN. Thank you.

Dr. Spriggs, you are now recognized for 5 minutes.

STATEMENT OF THE HONORABLE WILLIAM E. SPRIGGS, CHIEF ECONOMIST, AFL-CIO; AND PROFESSOR OF ECONOMICS, HOWARD UNIVERSITY

Mr. SPRIGGS. Thank you. I want to thank Full Committee Chairwoman Maxine Waters, Subcommittee Chairman Brad Sherman, and Subcommittee Ranking Member Huizenga for the invitation to give testimony before you today on the issue of our nation's unemployment crisis, and on worker safety and the capital markets.

I am happy to offer this testimony on behalf of the AFL-CIO, America's house of labor, representing the working people of the

United States, and based on my expertise as a professor in Howard University's Department of Economics.

My written testimony focuses heavily on the needs of workers in today's economy. The extra \$600 that has been added to unemployment insurance is contributing importantly to the stability of our economy. We see from the indications in March and April, when people were unable to have the \$600, how they were falling behind and not paying their rent on time, and that in May and June, they did improve their payment of rent on time. But now that we are into July, with the threat that the \$600 will go away, consumers are already starting to hoard their money and savings, and have fallen behind in July, out of fear that the money will run out at the end of July.

That money is necessary because a disproportionate share of the unemployed are Black and Latinx workers. They have no wealth, they have no liquidity, and studies have consistently shown that a \$1 loss in income on their part leads to much more than a \$1 drop in consumption. And that is because they have no savings, and they look to a long recovery that will make it difficult for them to be able to get jobs. And so, this extra money actually is an equity issue in the face of this, and it is necessary for the economy in terms of stability.

And we see that in that we have achieved the restoration of consumption on the part of people in the bottom 40 percent of the income distribution. We still face a crisis because of a drop in demand brought about because of the disease.

I detail, in my written testimony, the threats that workers get when they complain about safety at work. These threats disproportionately have fallen on Black workers. One in six Black workers feel that they will face retaliation from their employer if they complain about a safety violation.

Workers do not have the sense that they have sick leave or the assurance that their employers will support them if they are sick. We see a very frightening share of women who show up to work and report that they have symptoms because they fear losing their job. And this is especially true for Latinx women, who are among the lowest-wage workers.

In order for us to win this fight against COVID, we must appreciate that this is a disease that people catch at work. This is not a matter of a lack of proper healthcare by Latinx and African-American communities.

The look that the Center for Disease Control did on health professionals showed that African Americans catch COVID at work in the same proportion that they are represented among healthcare workers. The problem for the African-American community is that Black workers are overrepresented in healthcare.

When you look at who is hospitalized in the Latinx community for COVID, you see it as a working-age disease; the majority of Latinx who get hospitalized are 18 to 44 years of age.

It is vital for the Congress to monitor money given to corporations under COVID to make sure that workers are safe, that they will not face retaliation if they complain about safety, and that they have sick leave so that they can report illness and stay home and not infect other workers. This is vital for the economy.

It is vital to be prudent about the money that we are sending to these companies. We are not going to win this economic war until we win the war against the disease. We cannot have the money from Congress wasted on financial activities. It needs to go to the real economic activities. Stock buybacks, dividends, and excessive pay to CEOs are leakages from the money that must go to keep companies profitable and producing, and to keep their workers safe. I encourage you to look at the legislation before you on those matters. Thank you for this opportunity to testify.

[The prepared statement of Dr. Spriggs can be found on page 73 of the appendix.]

Chairman SHERMAN. Thank you, Dr. Spriggs. Thanks for focusing our attention on the need for sick leave.

And Mr. Bradley, you are recognized for 5 minutes.

STATEMENT OF NEIL L. BRADLEY, EXECUTIVE VICE PRESIDENT AND CHIEF POLICY OFFICER, U.S. CHAMBER OF COMMERCE

Mr. BRADLEY. Chairman Sherman, Chairwoman Waters, Ranking Member Huizenga, members of the subcommittee, on behalf of the 3 million-plus businesses that the U.S. Chamber is privileged to represent each day, thank you for the opportunity to appear before you today.

To date, 3.3 million Americans have been infected with the COVID virus, and over 134,000 have died. Nearly 18 million Americans, more than 1 in 10 workers, find themselves unemployed amidst the deepest and swiftest economic contraction on record. Over the past several decades, we faced many challenges, including asset bubbles, market failures, and exogenous events, like terrorist attacks. But this is unprecedented.

The road to full recovery will be longer than any of us desire, but the work that you and your colleagues in Congress will do can speed us along the way. While the pandemic and the economic shock it has caused have touched every corner of this land, the health and economic impacts are not evenly borne.

As of June, some sectors of the economy have essentially restored all of the jobs lost since February. Other sectors, particularly those most impacted by closures and social-distancing requirements, where remote work is not possible, have faced catastrophic losses. Nearly 30 percent of the leisure and hospitality jobs that existed in February are gone today.

Today, the unemployment rate is 50 percent higher for Black than for White Americans, and only slightly better for Hispanic-Americans.

While some of these disparities reflect the unique nature of the pandemic and the countermeasures taken in response, much of the differences, especially for Black Americans, reflect structural challenges that existed before any of us had ever heard of COVID or social distancing.

At the U.S. Chamber, we believe we have two important challenges immediately before us: to beat the pandemic and minimize its economic fallout; and to begin the long work of creating a more level playing field that ensures a greater equality of opportunity for all Americans.

We should not conflate these challenges by passing permanent policy changes under the guise of responding to the immediate challenges of COVID, nor by thinking that our response to COVID will change these long-term structural challenges.

At the Chamber, we are simultaneously focused on initiatives to address both of these challenges. In response to COVID, we have supported the CARES Act, the Paycheck Protection Program (PPP), and the Main Street Lending Program. We believe a phase 4 bill that is timely, temporary, and targeted, and focused on issues like a liability safe harbor, support for slower-to-recover employers, the unemployed, and State and local governments, is critical.

We recently launched an initiative on the quality of opportunity, focused on closing the opportunity gap that exists for Black Americans. Our work includes efforts around education, employment, and entrepreneurship. We look forward to working with members of this committee around issues, such as access to capital for Black and other minority-owned businesses.

Amidst all of this, however, there is some good news. Each week, the Census Bureau reports on new business applications, and they break out those that, based on their criteria, they believe are the most likely to create payrolls, and new jobs for our fellow Americans.

In the most recent week, the number of these types of new high-propensity business applications was up over 100 percent compared to a year ago. It is actually the highest on record in the past 13 years. The same was true for the 2 weeks prior, compared to the last 13 years. The week before that was the second-best week on record.

Across this country, our fellow Americans are responding to this crisis by creating new opportunities for themselves and for others. Who knows what new businesses are being formed today that will change the world tomorrow? To fulfill their promise, these new businesses will need capital. That is why the Chamber is pleased to support proposals that make it easier for entrepreneurs to access crowdfunding, micro offerings, and angel investors. It is why we support business development companies. My written testimony details these and other bills the Chamber supports.

It is also why I must raise a note of caution. Some of the bills noticed for this hearing today would set back the economic recovery, and impede the restoration of jobs. Some of the proposals change the rules around receipt of COVID-related aid after businesses have already applied for and received assistance. Changing the rules mid-game is the surest way to make sure that employers don't apply for aid, which just means more unemployed.

There is not a single unemployed American or struggling American business that is responsible for this pandemic, which is why I urge you to continue with the bipartisan approach Congress has taken heretofore—of focusing on supporting the unemployed Americans, and helping their employers weather what we hope will be a short downturn.

And in the same spirit, let's continue to work together to improve the structure of our economy by improving access to capital for entrepreneurs and employers, especially those of color. Thank you.

[The prepared statement of Mr. Bradley can be found on page 43 of the appendix.]

Chairman SHERMAN. Thank you. And thanks for giving us some good news. "Entrepreneurship" is the middle name of this sub-committee.

I will now recognize myself for 5 minutes. I do want to comment about the importance of sick leave. We should be providing sick leave so people can stay home if they are sick, or if their kids are sick. That is critical to getting this disease under control.

We cannot limit that requirement only to those employers who feel generous. We can't limit it only to those employers who are between 50 employees and 500 employees, as present law is now. And while we should require it of those who get money pursuant to these facilities, it ought to apply to all employers, even those that are not borrowing from the Federal Government.

My first question is for Ms. Simpson. For a number of years now, CalPERS has played a leading role for greater human capital management disclosure requirements. As of May 31st, CalPERS holds over \$200 billion in public equity. Could you explain, from the perspective of an institutional investor, why human capital management disclosures are important to investors?

Ms. SIMPSON. Thank you very much, Chairman Sherman, for the question. CalPERS, some years ago, reviewed the research on long-term value creation. We looked, with the help of academics, at close to 2,000 studies, and one of the conclusions in this is that financial capital on its own does not produce the value we need to pay pensions.

Every company will tell you, "Our people are our greatest asset." Without people, and without communities, customers, and supply chains, companies simply can't function. And as an investor, as a pension fund like us, we harvest those returns in order to benefit other workers, those who are relying on this for their retirement security, and for their health benefits.

What we have found difficult in terms of making progress is that there is simply so little information about this vital part of company performance. I will give you one example. In the S&P 500 these days, over 80 percent of the balance sheet is called, "intangibles," and this is just a black box which essentially mostly has people: ideas; intellectual property; and productivity. Thirty years ago, the balance sheet for the S&P 500 was more than 80 percent fixed assets, stuff: factories; and property ownership.

So I think what we are saying is, the economy has moved on, and corporate reporting has not kept up. And the point of the advice of the Investor Advisory Committee, as we were anchored in research about what matters for performance and came up with those categories, and we do have hope that the SEC will pick this up. Thank you.

Chairman SHERMAN. Let me squeeze in another question, and that is, first, if we are going to get reliable information about human capital, what we do for things on the balance sheet and the income statement is, we have clearer definitions, because different companies can give different rules as to, or different definitions as to what it means to have an average employee retention of 1 year or 3 years or whatever. And so, I think we need to work on defining

the terms and having a body define those terms just as we define earnings per share, just as we define number of outstanding shares, just as we define everything on the balance sheet and on the income statement.

And then second, we are going to need to audit this information, because it seems to be that this information, the accuracy of it, is just as important to you as an investor, as that earnings-per-share number or any other number on the balance sheet.

Mr. Spriggs, we have seen, especially since the 2017 bill, a number of companies giving somewhat contradictory information as to how much taxes they are paying in different tax havens. Would it be helpful if we required companies to disclose what tax-haven countries they are operating in, and in which countries they have the bulk of their employment?

Mr. SPRIGGS. It would be very helpful, particularly because we are handing out large amounts of money to help support productive activities of firms here in the U.S., as we go through this fight with COVID.

So, it is important for us to know potential leakages of that money, and it is important for us to know, from a risk factor, because we know the disease is so prevalent in some other countries.

Chairman SHERMAN. Thank you, and I will surprise my colleagues by yielding back my last 11 seconds, and recognize Ranking Member Huizenga for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. I appreciate that, not just the 11 seconds, but the recognition as well. I do appreciate the opportunity to be having this conversation again. We are certainly, clearly, in a challenging time. We have seen some positive outcomes as we have seen some of those unemployment rates drop to the tune of millions of jobs coming back. Yet, at the same time, we know that there are some real issues with which we are continuing to deal.

Mr. Bradley, I guess I would like to hear from you. As we are seeing this, many, I think on both sides of the aisle, would credit the CARES Act with helping in that recovery. And there's lots of discussion about what a new phase should look like. Dr. Spriggs had talked about the \$600-per-week kicker as being a way of sort of leveling the playing field, and as an equity issue.

And, I guess, Dr. Spriggs and others, I would invite you to watch Michigan at some point, where my small employers are saying, "We have jobs available; people simply are not taking them. They won't come back to work." And that, to me, is an important part of this long-term recovery, not just short-term, but long-term. We cannot lose that culture, that dignity of work that we have.

But, Mr. Bradley, I am wondering if you can maybe talk about some of the lessons learned from the CARES Act and what a new phase should include or maybe shouldn't include?

Mr. BRADLEY. Thank you, Congressman. To your point, it is an unprecedented time, and Congress acted with unprecedented speed in enacting the CARES Act. One of the things that you sacrifice with speed is often accuracy. And by the way, with the Chamber, we don't fault the Congress at all for prioritizing speed over accuracy. It was exactly the right thing to do in the moment that we

found ourselves in, as the virus was spreading and we were shutting down the economy.

Now, we are in a different situation. The benefit of time and of data is that we can actually be much more targeted in our approach to supporting both employers and workers. For example, at the Chamber, we don't believe that simply blanket extensions of the same policies from the CARES Act, even on the employment side, are the best approach.

We can be much more targeted, focusing on those industries that are the slowest to recover because we have to maintain social distancing requirements, for example.

With respect to individuals, the \$600 was implemented because of the need for speed. We know as a general principle, you should not pay more for someone to not work than you pay them to work. That creates distortions in the labor market.

President Obama's head of the Council of Economic Advisers, his former NEC Director, has joined on a bipartisan basis with officials from the Bush Administration in suggesting a much better approach, one we endorse at the U.S. Chamber, to target unemployment benefits much more closely to what an individual earned when they were working.

It shouldn't be true that you earn more, but you also shouldn't earn substantially less. I think we have the time to get this right; and if we get it right, we will support the recovery.

Mr. HUIZENGA. Let me light a candle, not just curse the darkness on that particular issue. I have a bill that we have dubbed the "Patriot Bonus," and I would hope that every organization that supports working men and women could be supportive of this. It says that if you, as an employer, offer a per-hourly bump over what your average wage is to that individual, a weekly bonus, or a one-time bonus, then you would get a 50 percent tax credit that you could use to offset your taxes. It shares the burden with the Federal Government, and stimulates that activity with the private sector, and most importantly, it benefits the worker. It puts capital back into circulation, and would be a great way of incentivizing those people to come back. So, I would like you all to take a look at my Patriot Bonus proposal.

I do have a couple of others, a mergers and acquisitions bill that is geared towards privately held, small, family-owned companies, not publicly traded companies, but it streamlines that ability to move that company [inaudible]. I appreciate the opportunity to be with you, and I yield back.

Chairman SHERMAN. Thank you. The Chair now recognizes the distinguished Chair of the Full Committee, Chairwoman Waters.

Chairwoman WATERS. Thank you very much.

Dr. Spriggs, America owes its success to the hardworking ingenuity of its workers. Investors around the world flock to the U.S. capital markets for a chance to invest in companies that have the strongest human capital in the world, and yet, it seems that corporate America has forgotten that. Corporate America is doing just fine, it seems, with record-breaking debt sales, and a stock market that has largely recovered from its earlier losses in the pandemic.

And yet, corporations that I have supported, like Boeing and Amazon, are failing their workers. Boeing has announced over

12,000 layoffs as a result of the pandemic, even though it has engaged in over \$43 billion in stock buybacks since 2013. Most concerning, Boeing turned down \$17 billion in Federal aid in order to avoid implementing worker protection provisions that Congress required under the CARES Act, choosing instead to find funding in the Federal Reserve-backed private debt market.

According to a Washington Post report released in March, Amazon, which has relied on its workers to meet increased demand for online sales, has failed to provide basic protective equipment.

So Dr. Spriggs, Congress imposed a few targeted conditions on Federal assistance designed to support workers, but they don't seem to be working. Why do you think that is, and what changes do you recommend Congress make to ensure that Federal support goes to American workers and not to line the pockets of the corporate elite? Dr. Spriggs?

Mr. SPRIGGS. Thank you, Chairwoman Waters, for that question. I think it is a very important question. It was one of the issues we felt concerned about at the AFL-CIO, that corporations would take advantage of the huge amount of liquidity in the system to circumvent the need to retain workers, and to provide safe working conditions. And as you mentioned, unfortunately, that has occurred.

I think going forward, it means that we have to watch much more closely the kind of behaviors you mentioned, which are really about financialization, and not about making the necessary investments for long-term profitability.

We need to have far more disclosure about the way workers are treated, far more disclosure as a matter of regular recourse about buybacks when they are announced, and we need to think about how we structure our tax breaks, when companies engage in financialization rather than in real investment.

I think that in this case, at least for the money that Congress has provided, there has to be a far more vigilant position taken on worker safety, and on workers having access to sick leave, and on making sure that we do retain workers.

Chairwoman WATERS. Thank you very much. Let me just ask our CalPERS representative about diversity, and whether or not—what did you do to replace the Emerging Manager Program that I put into CalPERS many years ago, that ensured that we had asset managers who were helping to—a part of investing CalPERS giant resources? What is happening with that? Who is representing CalPERS?

Ms. SIMPSON. Good morning. Anne Simpson from CalPERS.

Chairwoman WATERS. Yes.

Ms. SIMPSON. Thank you for the question. The CalPERS Emerging Manager Program continues. We had a review of our active management strategies over the last year in which the active managers were judged on performance and also on cost. And as we all know from the research, it is very difficult for active managers to beat the public markets, where you can invest more cheaply through an index. So, we did not have a special focus on emerging managers. We were looking at the active managers—

Chairwoman WATERS. What are you doing about diversity in management of these—

Ms. SIMPSON. —and they continue in our private equity and our real assets cost, so the program has continued.

Chairwoman WATERS. Can you represent how many and what investment managers you have on the CalPERS operation there?

Ms. SIMPSON. Yes.

Chairwoman WATERS. How many and what?

Ms. SIMPSON. CalPERS has reduced a large number of its external managers over the past year, and the reason for that is to save money. We have gotten to the position where bringing investment internally to CalPERS is going to save us over \$100 million a year in costs, as external managers do cost a lot more money than our internal—

Chairman WATERS. My time has expired. I will be following up, because I created that program years ago for CalPERS, and I want to make sure that we have diversity and inclusion. I will get back to CalPERS. Thank you. I yield back.

Chairman SHERMAN. Thank you. I now recognize Mr. Stivers from Ohio.

Mr. STIVERS. Thank you, Mr. Chairman. I appreciate it. And I appreciate you holding this hearing. I think it is a very important hearing, and there are a lot of changes moving forward that we need to react to.

My first question is for Mr. Bradley. Mr. Bradley, I want to thank you for supporting a bill that I am co-leading with Chairman Sherman, H.R. 7375, the Access to Small Business Investor Capital Act, which you quickly mentioned in your verbal statement, but have mentioned a little more deeply in your written statement.

I believe the chairman and I are aligned on the importance of getting capital to small business, and I thought maybe you could explain why getting capital to small business is so important at this time?

Mr. BRADLEY. Thank you, Congressman, and thank you for your and Chairman Sherman's leadership on that bill and other initiatives on capital. One of the great challenges that small businesses of all shapes and sizes across sectors, independent of the owners, have, is accessing capital. It is much easier for larger corporations, who have established relationships, to access, whether it is debt or equity markets, and it is harder for small businesses to access venture capital.

[inaudible] Congress has done over the last several years—in fact, going all the way back to the early 1980s—create vehicles like BDCs to help get investment targeted and focused on these small businesses is literally the difference between life and death for those businesses. You can have a great idea, you can have a great work ethic and a great workforce, but if you don't have the capital to deploy it, you are not going to get very far.

And so, continuing to strengthen business development companies (BDCs), continuing to focus on things like crowdfunding, we think is essential, particularly in a moment like this, where small businesses are particularly having difficulty accessing capital.

Mr. STIVERS. Thanks, Mr. Bradley. Could you also mention one of the drivers of jobs in the last 60 days? Hasn't that been smaller businesses?

Mr. BRADLEY. Smaller businesses are coming back, and one of the most exciting things we see is that new businesses are emerging. We do know that when we come out of this pandemic, the economy is not going to look exactly like it looked like before. There are going to be new opportunities created.

The thing that it is important for public policy to do, from our perspective, is to make sure that the folks who are creating those new opportunities have the ability to access capital, to do the things that they need to do, to turn those new dreams, those new business ideas into a reality. That is actually going to make us stronger coming out of this, not weaker.

Mr. STIVERS. Thank you. I think that is really important. Another thing that I wanted to quickly have you mention, Mr. Bradley, early on in the pandemic, many businesses were forced to make very difficult choices, and I have heard many stories about employees whose hours were reduced, but they weren't reduced enough to make them eligible for pandemic unemployment insurance. Do you think Congress should do something for this group of individuals who are still working, but aren't working nearly as many hours, and obviously are struggling to continue to pay their bills?

Mr. BRADLEY. There is some creative work being done here, particularly with partnerships with the State, on work-share arrangements. You all partially funded those programs as part of the CARES Act. I think you can do more in this next phase 4 bill. What that really allows is the State labor departments to work with businesses who are in exactly the situation you described, to keep people paid, but also, help offset that lost income that they are facing because of a reduction in hours. That would be a very timely and targeted thing to do as part of this next phase 4 package.

Mr. STIVERS. Thank you very much. I appreciate it. I do have a few seconds left, and I want to ask Ms. Simpson a quick question. In reviewing your testimony, I noted that CalPERS' stock return in the 52 weeks that ended June 28, 2019, was only 6.1 percent, compared to the S&P return of 8.22 percent. And on behalf of your public workers in California, I am very, very concerned about your underperformance, and I am curious what you are going to do to help those firemen and public workers who are being short-changed by inadequate performance at CalPERS?

Ms. SIMPSON. Thank you, sir, for the question. The issue of the performance of the CalPERS fund is our top priority, and you will have seen our chief investment officer's presentation of our new strategy towards the 7 percent goal, which was presented to our investment committee, to our board, last month.

A critical part of this is making sure that we can access more assets, but better assets, in order to improve our ability to hit that 7 percent. I would also say that over the long term, this is where we are focused. We can't just invest in the stock market, we also have to invest in—

Chairman SHERMAN. The time of the gentleman is expired.

Ms. SIMPSON. Thank you.

Mr. STIVERS. I realize my time has expired, ma'am. I will follow up in writing. I am concerned about your target being 7 percent as opposed to—

Chairman SHERMAN. The time of the gentleman has expired.

Mr. STIVERS. I yield back.

Chairman SHERMAN. It is good to see the gentleman from Ohio so concerned with CalPERS. I am a participant in CalPERS. You are from Ohio. I think they are doing an excellent job. I now recognize Representative Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman. And I thank all of the witnesses who are here today. I would like to follow up on Ms. Simpson's testimony.

Ms. Simpson, in February, our committee passed the Workforce Investment Disclosure Act, which would require publicly traded companies to disclose certain detailed information regarding human capital management policies, such as you discuss, and practices and performance.

The SEC also recently proposed changes to Regulation SK, which would require human capital disclosures. The bill would require public companies to disclose information about their workforce, which would ensure that investors have the information they need about one of the company's most important assets, its workforce, before they make their investment decision.

However, the SEC's proposed approach to disclose gives company executives discretion over what they tell investors. Can you please explain why this might be problematic?

Ms. SIMPSON. Thank you, Congresswoman Maloney, and we agree with your important comment that investors need reliable, consistent, timely, verified information. Any information which an investor is able to act on, cannot be loosey-goosey and all over the place. It used to be like that over 100 years ago with definitions of profit, or even 11 years. And slowly but surely, we have understood that financials need to be standardized, they need to be audited, there needs to be regulatory oversight of those standards. And for human capital, which, as you say, has been thought of for too long as a cost, it is actually an asset.

How human capital is going to be managed in a company is critical. So, we need the same standards of quality for this information as we have for accounting information. Otherwise, the market is not going to be able to respond, companies will not get the benefit of their good practice, and we won't be in a position to hold boards accountable when things need to improve. Thank you.

Mrs. MALONEY. Thank you. Ms. Busette, unfortunately, low-income Americans in communities of color have been disproportionately affected by the economic fallout of the COVID-19 pandemic.

As Fed Chairman Powell testified before the Committee on Homeland Security, "The rise in joblessness has been especially severe for lower-wage workers, for women, for African Americans, and for Hispanics."

Could you speak to why we may see this disparate impact?

Ms. BUSETTE. The disparate impact that you just described—and thank you very much for the question, Congresswoman Maloney—is, again, perpetuated in the current labor statistics. As we saw most recently from BLS, the unemployment rate, overall was 11.1

percent, but the Black unemployment rate was 16.6 percent, and the Hispanic unemployment rate was about 15.4 percent, which would suggest that the difficulties that minorities were having in the pre-pandemic economy continue, and much higher unemployment rates persist in the pandemic economy and in the early recovery.

There are multiple reasons for this, and are a result of a very long history of exclusion from employment, from education, and from a variety of other advantages, such as owning homes, access to business capital, et cetera, and without proactive directive action on the part of Congress, both in the financial services sector, and in other related sectors, this is likely to persist.

Mrs. MALONEY. Thank you. Dr. Spriggs, in the fallout of the COVID virus pandemic, our private companies are just disproportionately declaring bankruptcy and laying off employees. As the crisis has highlighted, investments in private markets are inherently riskier, because private companies are subject to fewer regulations. In contrast, our public markets are designed to protect shareholders with the transparency needed to protect investors, and allow workers to stay focused.

Do you think it is important to encourage companies to enter the public markets, and what are some of the ways we can do that, Dr. Spriggs?

Mr. SPRIGGS. Thank you for the question. I think it is important that we think of the aid that we are dispensing, so that it can be readily accessible by some private firms, but, again, with the condition that we want to make sure that workers will be safe, and that the firms are committed to the virus. We need to be rolling in the same direction.

Chairman SHERMAN. The time of the gentlelady has expired. I now recognize the gentlelady from Missouri, Mrs. Wagner.

Mrs. WAGNER. Thank you, Mr. Chairman. It would be my assessment that some or all of these bills presented for this hearing would be costly to companies, and must also be passed along to real people, real investors, and real constituents in my own Second District of Missouri.

Mr. Bradley, could you talk a little bit about this? What impacts do costly regulations, such as unnecessary disclosures or limits on capital allocation options have, especially on smaller or younger companies?

Mr. BRADLEY. Representative Wagner, thank you for bringing this up. It is an excellent point. Disclosure sounds simple and easy, but it is actually often quite time-consuming, particularly in a litigious environment and in a regulated environment. It costs, on average, about \$2.5 million for a publicly traded company, a small publicly traded company to comply with existing disclosure requirements. You add additional requirements, and the additional costs expand. This is particularly problematic for newer companies, smaller companies, companies which are operating on very thin margins, because that is a fixed cost imposed on them by the government. They have no choice but to comply with the mandates passed by Congress and to absorb that cost, or pass it along in some form or fashion.

Congress actually recognized this problem on a bipartisan basis back when the original JOBS Act was passed. You may recall that part of the premise of that was to streamline disclosures and regulations as a way of making it easier for new companies to have less costs if they access financing. The proposals that have been noticed as part of this hearing today would move us back in the opposite direction from where we came with the jobs.

Mrs. WAGNER. And do you agree that burdensome regulations generally have a more significant impact on smaller companies compared to larger companies?

Mr. BRADLEY. Absolutely. It has an impact for everyone, but it is much harder for a smaller company, with a smaller compliance office, with less resources to absorb.

Mrs. WAGNER. And added regulatory burdens on public companies help achieve higher growth? Would that be an accurate statement?

Mr. BRADLEY. Higher regulatory costs? No, the higher regulatory costs on public companies impede growth and go in exactly the opposite direction.

If our goal is to take more private companies and make them public for the reasons that Dr. Spriggs, for example, discussed, then you want to reduce the burden and the cost of becoming a public company.

Mrs. WAGNER. And this is my point, it is very clear to me that these bills would harm the quality of capital allocation decision-making.

Do you have any suggestions, Mr. Bradley, that might improve capital allocation?

Mr. BRADLEY. Well, access. This is about access to capital financing. We have to recognize that just like not every business in the United States is the same, the ways in which they access capital is not going to be the same. So, to the extent that we can protect and expand multiple ways for businesses to get to the capital that they need to start and to grow, we are going to be more successful in creating more companies.

That is why crowdfunding has become so important. That is why targeting offerings are important. We have to adapt the model of providing capital and equity to companies to adapt to the current real-world scenarios that businesses face.

Mrs. WAGNER. Would any of these bills encourage companies to begin the IPO process, and do any of these bills encourage companies to identify or track new investors?

Mr. BRADLEY. No, none of them would.

Mrs. WAGNER. Would you, instead, recommend that this committee focus—and I hope we could—on pro-growth capital formation bills, such as those that passed, frankly with unanimous or near unanimous support, in the 115th Congress?

Mr. BRADLEY. I would. I think it was over 400 votes that the package JOBS Act at 3.0 passed. Not only was it good policy, it was a shot in the arm to entrepreneurs across this country to see Congress coming together on a bipartisan basis to do something to support them. The more we can replicate that, the more we can get that bill enacted into law, the more confidence you are going to instill in this economy and in entrepreneurs.

Mrs. WAGNER. I couldn't agree more. We had so many pro-growth capital formation bills that were unanimously passed in the 115th Congress. I wish that we could have considered some of those, especially during these distressed economic times. I appreciate you highlighting some of that and the costliness and the burdens that are being passed along with some of the bills being considered today. I thank you and all of our witnesses.

Mr. Chairman, I yield back.

Chairman SHERMAN. Thank you. I now recognize the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Yes. Thank you. Dr. Busette, here is what I think is the real situation. We have some companies that can offer teleremote work to the tech workers and keep productivity high. But on the other hand, we have other industries that rely almost entirely on physical, frontline workers who are mostly women, African American, and Hispanic workers with no telecommunication options, and at the same time, are paid the lowest wages.

Dr. Busette, have industries and companies that allow for teleworking been more able to adapt to the COVID-19 crisis and keep productivity high? And is it possible that the market will value these companies and industries more highly because they are able to be responsive and maintain productivity in the face of the massive interruptions like we are seeing today?

Ms. BUSETTE. Thank you, Congressman Scott, for that question.

As you mentioned, as the pandemic set in, there became a distinct difference between the types of working situations that workers were able to enjoy. For some people, they were able to move their work to telework, and some companies were able to benefit from that. Other companies, and the nature of the work, did not allow for the movement to telework. Those types of industries and companies employ essential workers, and as we know, essential workers seem to be predominantly Black and Brown and low-wage workers, and in those industries, people had to come to work.

So as a result of that, companies that were able to keep their production moving and their productivity moving in the same direction because they were able to implement telework clearly had less of an interruption in their revenue production.

Mr. SCOTT. I just wanted to say, you touch upon another point that what you are saying results in. Since women, African Americans and Hispanics, hold more of these physical, you-have-to-be-there-in-person front-line jobs with no opportunity to telework, are you concerned that this diversion will widen the wealth gap?

Ms. BUSETTE. Thank you for that question. Yes, of course, I am concerned that it will widen the wealth gap, for a number of reasons, first of all, because of the predominance of people of color in low-wage jobs. Low-wage jobs, in general, do not come with the kinds of benefits, or obviously, the kind of income that would be necessary to decrease the racial wealth gap and the racial income gap, both of which have increased since 2010.

Mr. SCOTT. Now, I want to ask you, because it has been the hallmark of our committee, many of us have been working to provide answers to closing this wealth gap, and this is particularly true for African Americans. Nobody has suffered more. Since the advent of slavery, we have been trying to close this wealth gap. And I see ex-

cellent opportunities within this crisis, within what we can do in Congress to give financial stability, increase financial security for the African-American community. But tell us, if there were one or two things that we could do in this Congress, using this pandemic crisis, what would you recommend we do?

Ms. BUSETTE. Those two things would be ensuring that the Federal Reserve is charged with taking its management upon employment rate to bring down the Black unemployment rate to the White unemployment rate, that is number one. Number two is financing small businesses, minority- and Black-owned small businesses.

Mr. SCOTT. Thank you very much. I appreciate it.

Chairman SHERMAN. I thank the gentleman from Georgia.

The Chair now recognizes Mr. Hill, the gentleman from Arkansas.

Mr. HILL. Thank you, Mr. Chairman. Thank you for holding this hearing. We need bipartisan solutions to worker safety, and student and teacher safety in order to return to school. For those who are still not back at work, we need a solution for them in the coming months.

But today, despite our fine witnesses, this hearing is of little value on those important pending decisions before the Congress. Instead, we are welcomed back to another edition of our Capital Markets Subcommittee, which I call the, "broken record edition," discussing capital markets, which like so many other hearings, is organized to somehow turn back to stock buybacks.

I specifically draw attention to hearings from last October, and last May, when I focused my questioning of our witnesses around stock buybacks. As I stated during those hearings, and will highlight again today, government interference in public companies' capital decisions leads to inefficient outcomes by limiting wage growth for companies' employees and hindering long-term economic growth.

Companies that engage in strong research and development, and strong capital expenditures all can, in times of high profits and high economic growth, have payouts to their shareholders in the form of dividend payouts or stock buyback. When times are tough and profits fall, stock buybacks and dividend payments decline. And that is what is happening right now under these market conditions.

We don't need Congress to tell people what to do about that. Their long-term financial benefit for their company's existence, their employee's well-being, their mission, their ability to generate a long-term return for people, like CalPERS, that are severely underfunded and reducing the number of investment opportunities they have, all are benefiting in the long run by companies doing that fiduciary capital allocation.

And don't take it from me, take it from Warren Buffett, who is frequently in the national news talking about this issue, saying that if a company stock is below its intrinsic value, it absolutely makes complete sense for that company to acquire those shares. But as I say, that is not where we are in the economic cycle now. We are in the capital preservation mode, in a company preservation mode, and so it is completely out of character and out of tune

to be talking about stock buyback measures today when we should be talking about bipartisan solutions to a faster economic growth.

The idea is expressed, again, in Mr. Casten's bill, in which he wants to stop buybacks during the course of the pandemic. We don't need to worry about it. The market has already taken care of that.

In fact, Goldman Sachs is anticipating a 30 percent decline in buybacks during 2020, which is consistent when you go back and look at previous recessionary periods, most recently 2008, 2009, that kind of decline. And, again, it is because companies' management have a clear focus on what they need to be doing to preserve their mission, preserve their opportunities to employ their workers, preserve capital in order to get through the virus and get back to full economic capacity. Companies should be determining how their money is allocated, not the government.

Mr. Bradley, SEC Chair Clayton has previously testified in front of this committee that it is not within the purview of the SEC to determine a company's individual asset allocation. Do you share that view?

Mr. BRADLEY. I do.

Mr. HILL. And if the government did interfere, directing companies' broad capital allocation decisions, what do you think would be the potential ramifications of that to macroeconomic growth?

Mr. BRADLEY. It would significantly hinder growth. It would stop the new business formation. It would encourage more companies to remain private or go from being public to being private, because there is simply no way that the SEC or Congress could write a rule that reflects the individual needs of every single diverse business in America. And if you attempt to write a rule to do that, you will simply misallocate capital, and investors and others will seek relief outside the system that you are regulating in order to be able to conduct business.

Mr. HILL. Thank you.

I would like to say, too, Madam Chairwoman, that Representative Donna Shalala and I are working together on a bipartisan basis to make sure that the Fed and the Treasury do implement the bipartisan set of limitations connected to the Fed and Treasury financial products and services during the pandemic.

So, thank you for the time today.

Mr. Chairman, I yield back.

Chairman SHERMAN. Thank you. I will point out that my comments about stock buybacks were focused on companies who are getting loans from the Federal Government.

I now recognize Mr. Himes from Connecticut.

Mr. HIMES. Thank you, Mr. Chairman. And thank you to our witnesses for today.

I have some questions for Ms. Simpson, but I did want to make a brief comment on the exchange between Mrs. Wagner and Mr. Bradley. It is a little dispiriting, candidly. And by the way, I don't even disagree with the points you made. There probably are some bad ideas in this list of legislation, and I have spent the better part of 11 years trying to find the right balance of regulation in our financial services sector. But to hear the same old script about how it is a choice between growth and safety is really dispiriting. And

just to illustrate that, I want to point out that even as we bail out every single member of the Chamber of Commerce with public funds from the airlines down to businesses, large and small, there is one group that we are not bailing out, and that is the big banks and the financial services industry. The banks are well-capitalized, with 12 percent capital ratios.

In a stress test, we are fine. We talked to the Federal Reserve yesterday and they said two things, and this is Mike Gibson, who is the Director of the Division of Supervision and Regulation. He said, "Our stress test scenarios suggest that the banks are in good shape, and a large part of that is due to the Dodd-Frank Act." And I listened to my Republican friends and the Chamber fight Dodd-Frank tooth and nail. So I had just had to make that point that, let's at least be humble about what we have achieved. And if there is one good thing to be said about where we are today, it is if we deal with a health emergency and an economic capacity, we are not looking at the banks flat on their backs the way we were in 2009 and bailing them out the way we did in 2008 and 2009.

Ms. Simpson, one of the things that strikes me, representing southwestern Connecticut, that comes up in spades around the COVID crisis is the disparities involved. In my community that I represent, I have some of the most profoundly poor communities, largely urban poverty, and I also have some of the wealthiest people on the planet, largely working in the financial services industry. I sort of marvel at the persistent profitability of the industry.

So, Ms. Simpson, you are a participant in that industry. You said that you require a 7 percent risk adjustment return in order to make the \$25 billion in payouts. Can you tell me please, and I am not asking about your administrative overhead costs, I am asking about the fees that you pay in the aggregate to manage that \$400 billion portfolio. Can you tell me either in terms of that, I guess, that 7 percent where a dollar value against that \$25 billion, what is the amount of aggregate fees that CalPERS pays to outside advisors and investment professionals?

Ms. SIMPSON. Thank you for the question. The fees and the expenses for the funds are all on our website. I apologize that I don't have the details in front of me right now. The costs for managing the internal portfolio, which is over 80 percent of the assets, are modest. The main fees that we pay are in relation to the external managers that we employ, and these are typically in the private asset classes.

However, the important thing for us is what is the bang for the buck, and those are the asset classes, where we have been able to earn the returns that we need. As an example, our private equity returns over 10 years are comfortably in excess of 7 percent, and, obviously, that is after fees. So, we look at this as risk return costs in order to be able to pay the benefits. I am happy to follow up with details.

Mr. HIMES. I would be very interested in understanding the aggregate drag on your 7 percent return. In particular, if I understand correctly, you have roughly a 20 percent alternatives portfolio. Twenty percent, of course, is the land of the 2-in-20 fee structure, right, where managers get 2 percent of assets simply for turning on the lights in the morning, then 20 percent of profits.

Could you estimate for us—first of all, if I am correct, 20 percent of your portfolio, or roughly \$80 billion, is in alternatives, can you estimate for us what the aggregate fees are that you pay for that alternative portfolio?

Ms. SIMPSON. Thank you. In our private markets, which are real assets in private equity, this is an excessive 20 percent. And the reason to that is because of potential returns. And those returns are calculated after fees. So, the net gain to our members is what we are looking for in order to pay pensions.

I would be glad to follow up with all the details on the costs as you are asking. Thank you.

Mr. HIMES. I would appreciate that. And just to be very clear, if you are paying for outperformance, God bless you, that is a good thing. But I would be very interested in seeing your fee structure against outperformance. I don't mean performance, I am not interested in just absolute performance. I am interested in, can people beat an index fund? And there is an awful lot of evidence out there that people are having a hard time beating an index fund. I would really appreciate the opportunity to look at those numbers in the case of CalPERS, not because I am interested particularly in CalPERS, but because you are one of the biggest funds in the country.

So thank you, and I yield back the balance of my time.

Chairman SHERMAN. Thank you. I believe we are down to only one more member from the minority party, Mr. Steil from Wisconsin, who is recognized for 5 minutes.

Mr. STEIL. Thank you, Mr. Chairman. Hopefully, last but not least. I appreciate you holding today's hearing.

As I look at where we are at as a country, we have been attacked by an invisible virus that is affecting our health and our economy, in particular, jobs. And now more than ever, we need to see pro-growth policies being implemented to grow our economy and allow people to safely return to work. In fact, Congress and the Trump Administration stepped up and provided PPP funding, saving thousands of jobs, as governments were making orders for businesses across the country to shut down.

As I have reviewed a lot of the bills attached to today's hearing, sadly, I don't see pro-growth policies being put forward. I am seeing additional burdens and regulations that would be put in place on job-creating businesses across the United States, which would slow our growth coming out of what is going to need to be a significant recovery to get all Americans back to work.

I would like to dig into a few of those policies that I think will slow us down, ask a few questions, and then kind of look at some pro-growth policies, to proactively move forward.

Mr. Bradley, I appreciate you being with us here today. One of the things that concerns me in today's proposed legislation is some of the ESG disclosures that would be required, without regard to materiality. And so, if you had paid attention to some of these hearings in the past, you would have heard me, time and again, talk about the core concept of materiality as being a core principle of our securities law in the United States, and a disregard for that materiality threshold in the legislation that we are looking at here today.

Can you comment as to what burden this places on businesses? And particularly, the leadership team that is trying to find creative, innovative ways to grow their business, grow jobs during a really challenging period of time, to put additional reporting requirements on these companies without regard for any level of materiality?

Mr. BRADLEY. Thank you, Congressman. You are exactly right. Materiality should be the cornerstone. These reports don't come, these disclosure don't come without a cost. As I mentioned in response to Congresswoman Wagner's questions, it costs about \$2.5 million, on average, for a small business right now, to comply with current disclosure requirements.

One of the things that is troubling about some of the recommendations included in the legislation attached to this hearing is that many of the things that it is asking for disclosure on are really intangible, very difficult to measure. That actually means that the cost is going to explode beyond the things that we are currently disclosing. It also creates tremendous pressure, because as executives, as boards find themselves liable for accurate disclosure, and you are trying to disclose something that you can't accurately measure, you really end up in a catch-22, which is why we always should go back to the cornerstone of materiality.

Mr. STEIL. I think it is so critical to think about materiality, and, particularly, as it relates to the SEC, which really is looking at getting the core information that investors need to make thoughtful decisions in their investments, not just putting forward information on the whims of Members of Congress, of whatever the flavor of the day is in Washington, D.C. I appreciate you there.

Let me just shift gears slightly, and let's talk about resubmission thresholds for a minute. I have been a firm believer that it is important that we allow businesses to operate efficiently to move forward. We see, time and again, where there is a ton of time and effort spent by management, not on growing the jobs, not on growing wages for employees where it should be spent, but instead, dealing with resubmissions of all sorts of things that come in.

The SEC is moving forward on this. One of the bills that is being proposed would pull the funding away and prevent that rule-making from moving forward.

Could you comment on the impact that would have on growing our economy and growing jobs in the United States if we could get better language on resubmission thresholds?

Mr. BRADLEY. The proposal would simply shadow distances with more of the costs that I just described. I would note that in the House of Representatives, I know that the Chair of the House, the Speaker, or a committee, has the power to rule motions dilatory, because they waste the committee's time or they waste the Members of Congress' time. That is a common concept. Except what we have with respect to resubmission thresholds is that we have allowed dilatory motions, dilatory resolutions to be put forward year after year, even though shareholders reject them by overwhelming margins year after year.

Mr. STEIL. I am only going to cut you off, because I want to get to one positive thing. We will chat about emerging growth companies next time. I appreciate it, Mr. Bradley. I yield back.

Chairman SHERMAN. Thank you. I now recognize the gentleman from Illinois, Mr. Foster.

Mr. FOSTER. Thank you, Mr. Chairman, and I thank our witnesses. There are many observers of economic response to the COVID crisis have been that this is simply accelerated structural shifts, which are already underway.

Even before the COVID crisis, we found that workers, particularly unskilled workers, were having a harder and harder time competing with machines for their jobs. And you are seeing that accelerated. Restaurants are finding it more efficient to have people order their food online, rather than hire minimum-wage staff, and so on and so forth. We are seeing a lot of the shift toward purchasing goods online, resulting in a massive loss to retail stores, many of which, unfortunately, will disproportionately be removed from many of the communities.

So, this is something that worries me a lot, that we are going to see with the acceleration of this trend. I was very interested to see that Representative Huizenga's proposal is effectively to subsidize labor. To understand that a business that simply maximizes profits will, over time, replace more and more human labor with robot labor. And unless you have some sort of subsidy program like Representative Huizenga talked about, you are going to have a hard time convincing a profit-maximizing company not to replace their human labor.

And I was wondering, is that something that is a worry for you, too, that structural changes are going to make the battle that we have been fighting even tougher?

Ms. BUsETTE. Yes, absolutely. Thank you for that question, Congressman Foster. I think it is very clear that the pandemic has accelerated the need for a skilled workforce. I think there is generally broad agreement that American workers will probably need to improve their skill levels. That is why I think at this point, we should be really thinking about making important significant public investments in upskilling, because the pandemic has clearly accelerated the changes towards the kinds of jobs that require higher skill levels.

Mr. FOSTER. Mr. Bradley, is this tendency, that profit-maximizing businesses will be replacing human labor with machine labor, something that we should lean against, or should we simply let it take place to whatever degree it is economically most profitable?

Mr. BRADLEY. Congressman, I think it presents challenges and opportunities. And I think my colleague on the panel just accurately described what we ought to be doing to minimize the problems from the challenges of dislocation of workers and maximize the opportunity. We should be investing in job-training programs and upskilling. We are not going to stand before history and say, "Stop." We are not going to stand before Congress and say, "Stop." We can decide to modify our programs or public support systems in a way that helps people manage the transition that technology is creating. That is a reasonable responsible approach for a public-private partnership, in our opinion.

Mr. FOSTER. So, you would be in favor of increasing taxes to pay for more education to upskill workers?

Mr. BRADLEY. I don't think I mentioned taxes at all, Congressman, but I think there is significant investment—

Mr. FOSTER. Do you believe in balancing the budget? I think you can't have it one way or the other. If you believe in balancing the budget, the question is, are you willing to increase taxes to pay for more education to retrain workers?

Mr. BRADLEY. Congressman, we should be investing in education. The Federal Government invests in a lot of things, including a lot of money in programs right now that I would suggest aren't nearly as important as the education and skills program that we are discussing. And we would be happy to work with you to identify some programs that we could repurpose into helping American workers.

Mr. FOSTER. Does anyone else on the panel have any ideas on the best way to increase the incentives for companies to hire more workers, where it is a close call between replacing a worker with a machine or not?

Mr. SPRIGGS. Congressman, I would rephrase the question. The problem through the last 40 years has not been the increase in productivity of American workers, it has been the increase in their pay to reflect their increased productivity.

Our greater concern at the AFL-CIO is that we have not seen wages rise to meet that productivity gain. Our greatest concern right now is the distortionary effects taking place because we have to worry about competitiveness policies coming out of this crisis. Some of the efforts that we have taken hurt that competitiveness. And we don't want to just hand it to people because of the nature of this crisis that has favored some companies over others. We want to have you take that into consideration.

Mr. FOSTER. Thank you. I am out of time, and I will yield back.

Chairman SHERMAN. I will point out that we tax payroll, and we have incentives for the purchase of equipment built into our tax structure.

I now recognize Mr. Meeks from New York.

Mr. MEEKS. Thank you, Mr. Chairman, for holding this hearing, and I thank the ranking member, and of course, the Chair of the Full Committee, Chairwoman Waters.

For years, inequality in the United States has been increasing, but never in the post-civil rights era have the differences been so stark. Black, Brown and Native people are disproportionately contracting and dying of the coronavirus. And there is clear evidence that further indicates that lower-income people are more likely to become infected than the wealthy, as indicated earlier.

While the white-collar workers can hop on Zoom, Webex, and Teams, essential workers who still have a job must go to work in person. The NASDAQ, for example, is up over 20 percent on the year. Yet, at the same time, the unemployment rate has tripled.

And one of the comments I do want to make—I know in the colloquy between Mr. Huizenga and Mrs. Wagner talking about people not going to work, I think that what you need to look at is, some people who have not returned to work, have not returned because they were making more money sitting at home, but it is because they are afraid of their health concerns, and their family's health concerns, when they go back to work, especially when you have some States where you can see the epidemic is growing every

day, with really no national direction in that regard; people are going without masks and other precautionary—and take other precautionary measures to keep them safe.

So, they have to make a choice for their health and the health of their families at times as opposed to even getting the money that they need to pay for rent, because no one is worried about paying for rent if you are not here and if you are not healthy. So, that is a big issue that has to be discussed and determined.

And I also want to go back to the conversation that Dr. Busette was having with Congressman Scott dealing with the wealth gap, which is tremendously important. And I think Dr. Busette said that we will never close the wealth gap with just minimum-wage jobs. And I couldn't agree with that more, which is why we have to focus on trying to make sure that we get folks who are talented, and are able to move into jobs that are paying more than just the minimum wage. And we do, as indicated by Mr. Spriggs, have to make sure that those individuals who are on the low end and have increased productivity, that their wages similarly grow as productivity grows. That means you are sharing what the wealth of the company is with the wealth of the individuals.

I do want to ask, in the little time that I have left, because sometimes—you know, I grew up in public housing, and they used to always say, you put your money where your mouth is, and that makes an important piece. And we were talking, in the last conversation, about whether or not we should increase taxes in regards to education to make sure we are having more of an upscaling of those who are being educated.

And also, I want to say, Mr. Bradley, while I don't agree with the Chamber on some things, there has been a statement that there should be a focus on bolstering entrepreneurship and increasing employment opportunities in communities of color. But it seems to me that there are too many proposals of just rehashing unrelated bills and not putting your money where your mouth is.

So if, in fact, we were putting capital into some of these Black and Brown communities and businesses, that would make a difference. When we talk about disparities, there are clearly disparities in education. I would think that a number of your companies could put a lot of money investing in schools, in these districts, so that you can get the upscaling as done in Germany, and then you can hire directly from some of these schools in these communities.

What say you, Mr. Bradley? Can't the U.S. Chamber of Commerce get behind pushing to put money where you have been talking to so that we can improve the upscaling of these schools and creating jobs and opportunities where you can recruit people directly into jobs that are paying more than the minimum wage?

Mr. BRADLEY. Absolutely, Congressman Meeks. We watched, about 2 weeks ago, an Equality of Opportunity Initiative, focused explicitly on closing this gap for Black Americans. Last week, we unveiled 30 specific action items. Some of them are action items for Congress, which we would love to discuss with the committee. Others are for State and local governments about [inaudible] Private sector to do exactly what you suggest to make these investments in these communities that need to be made so that we can close this gap.

Mr. MEEKS. I am out of time, but I look forward to sitting down to make sure these investments are made across America, in communities of color. Thank you.

Chairman SHERMAN. I now recognize the gentleman from California, Mr. Vargas.

Mr. VARGAS. Thank you, Mr. Chairman, for this hearing, and I thank the ranking member. We did hear yesterday from the Fed that the banks are strong and not in threat of failing. And they did say that Dodd-Frank was a big part of the banks' stability and strength, as Mr. Himes pointed out.

But I have been on this committee now for 6 years, and I have also heard quite a bit, the ideological statements that the regulations are just burdensome and unnecessary. It is certainly not what we heard yesterday. Also, coupled with some other statements made by some of our members, that if they had been here during the time of the Troubled Asset Relief Program (TARP), they would have voted against it, and just let the banks fail, and these other companies fail. Now, I find out that they are some of the biggest proponents of bailouts.

I guess Ralph Waldo Emerson had it right, "A foolish consistency is the hobgoblin of little minds." Because, boy, how things have changed with ideology.

But, again, I am thankful now that we are working, I think, generally as a group to figure this out. And I have to tell you, I want to thank Mr. Bradley first, thank you. Some of the comments that you have made about the disparity between Blacks, Latinos, and the rest of the population is wonderful. Thank you for acknowledging that.

We had the San Diego Chamber do that a number of years ago, the California Chamber, and they have been working on it. Now, to hear the U.S. Chamber saying these positive things, I honestly want to say thank you, I really do. I appreciate you doing that. I hope we can work on that structural rural change that you talk about. Again, thank you for doing that, I am very appreciative of it.

I do want to ask Ms. Simpson, your firm is a strong advocate of the Environmental, Social, and Governance (ESG) Disclosures. As you know, I have a bill on that, and I think it is very important that you called it the natural, physical, and human capital. I think it is generally the same. You described it a little bit differently. But could you explain a little bit more how you think the profitability, in the long term, is so important as we look at these issues?

Ms. SIMPSON. Thank you. Thank you very much, Congressman Vargas.

Capital approach to what we call sustainable investment, exactly as you rightly say, is we are looking at all of the factors that can have an impact on risk and on return.

So, let's take an environmental issue. We think of this as the natural capital that companies rely upon. We know something around climate change is having a big impact on companies' ability to perform. One example, we have extreme weather, heat, that not only imposes the danger of wildfire, it imposes the heat, imposes problems of drought, which is going to affect agriculture, it is even going to affect where companies decide to put their facilities, be-

cause people won't want to come and live and shop and spend money in areas that become too hot.

So as we start to map these risks, we can see a direct impact from climate change onto our portfolio returns.

There is also opportunity. We have investments in renewable energy, water storage, we are seeing companies making the shift from being dependent on fossil fuels and into low carbon energy, creating tremendous opportunity. We have just published our first report which shows that there is trillions of dollars of opportunity, but also that we need to be very vigilant about managing the risk, as one example.

Mr. VARGAS. So you would be in favor of standardizing those disclosures?

Ms. SIMPSON. Correct. Because if the reporting is all over the place, financial markets simply can't use that information. So, we support standardized, timely, audited, regulated information on issues which are material to long-term investors like ours. Thank you.

Mr. VARGAS. Thank you.

Dr. Spriggs, talking about workers, I am sure you know that in Europe, 19 countries require worker representation on the boards of certain companies, but only a handful of companies in the United States have experimented with worker representation.

Could you comment on having workers actually on the boards?

Mr. SPRIGGS. That is vital, because what it does is put another important constituent voice within the boardroom. And it is vital because workers are interested in the long term of the company. Workers would not be approving stock buybacks. Workers would want the company to take the money and invest it into profitable operations, not simply make stockholders get bigger dividends, or have CEOs hike up the price of the stock so they can get a bigger bonus.

So having workers at the table adds another dimension. It adds another dimension because it adds the community, the investment that our cities and towns and counties make by lowering tax rates in order to induce corporations to locate in those places. They have an interest in making sure they get the full payback from that investment.

Mr. VARGAS. My time has expired.

And, Mr. Bradley, I meant it, sincerely, thank you. I really do appreciate it.

Mr. BRADLEY. It's good working with you.

Mr. VARGAS. Thank you, sir.

Chairman SHERMAN. Thank you. Mr. Emmer from Minnesota has returned, and he is the next Republican Member, so we will recognize him for 5 minutes.

Mr. EMMER. Thank you, Mr. Chairman. And thank you for convening this hearing today. Although we might have differing opinions about some of the bills that are the subject of this hearing, we also have many nonpartisan bills already up for consideration on capital market issues that will help improve the economy during this time of dealing with the coronavirus.

For instance, Representative Vicente Gonzalez and I have introduced the Main Street Growth Act, which passed unanimously out

of this committee last Congress. Mr. Bradley brought up this bill in his testimony, including many others that we can pass by an overwhelming majority if leadership simply allowed them to be considered.

Now is the time to come together and do everything we can do to assist our fellow Americans. The Main Street Growth Act would establish venture exchanges as a means to assist emerging growth companies as well as to facilitate trading in thinly-traded securities.

The hallmark of our country is the ability for any person with a good idea to prosper and build a better life for themselves. In an era where we are increasingly going digital, giving these entrepreneurs the means to build capital from anywhere in the country through public offerings just makes too much sense.

In this third hearing on capital markets in the era of coronavirus, I believe we have heard enough. Now is the time to act.

Just a couple of weeks ago, the SEC sponsored a virtual forum on market structure where this very topic was featured. The Main Street Growth Act is widely supported, and companies are eager to establish and compete with their own venture exchanges.

If we were to green-light this proposal like we did last Congress, we could jump-start an economy that is sorely needing a jump-start.

Mr. Bradley, your testimony states, “Swift enactment of a bipartisan package in addition to recent measures put forward in the wake of the pandemic would provide a big boost to our recovery.” We have many new ideas and they deserve consideration. But we also have widely-supported ideas that we have not given the opportunity to flourish, and which would benefit us in a time exactly like right now.

In a time where nonbipartisanship is required to accomplish victories for all Americans, we should be looking at some of these previously supported ideas.

What do you think are the main barriers to enactment of some of these worthy proposals? Would the Main Street Growth Act and some of the other proposals—this is for you, Mr. Bradley—that you mention in your testimony, benefit the American worker right now, as the intention of this hearing is entitled, and if so, how?

Mr. BRADLEY. They absolutely would, and thank you, Congressman, for your leadership on this bipartisan proposal.

One of the things I mentioned in both my written and my oral testimony is some good news that is occurring, that we have a lot of new businesses being formed. Those are going to be absolutely critical for this recovery, because new businesses create the new jobs that replace the jobs that are displaced in a situation like the current pandemic crisis. If we don’t have those new businesses formed, if they can’t access capital, they can’t create those new jobs so that the displaced workers can take those jobs.

So, the fundamental thing we need to do is to continue to support new business formation. A key part of that is access to capital. So, anything that we can do, particularly things that are bipartisan that have been well-vetted, such as your mainstream lending initiative, ought to be enacted as soon as conceivably possible, both

because of the access to capital, but also because it is a strong statement of this Congress' belief in economic recovery. And that is a statement that I think would be well-received across this nation.

Mr. EMMER. Thank you, Mr. Bradley.

Mr. Chairman, I will just conclude by saying that if we want to help the American worker and his or her family, now is the time that we should move the Main Street Growth Act forward so that we can create these venture exchanges and start to help these new growth emerging companies—and we are going to see them all over the place—to reach that next level, and to help American workers and their families at the same time.

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

Chairman SHERMAN. Our next questioner is Katie Porter from California. One of the advantages of doing these remote hearings is we got to see her daughter just a minute ago, and now we get to hear her questions.

Ms. PORTER. Thank you so much, Mr. Chairman. As the only single mom in Congress with young children, and as a working parent, I know that single moms and parents generally are being asked to do the impossible right now. This isn't new, but the pandemic has only made it worse.

Mr. SPRIGGS, pre-COVID-19, what were the margins like for a normal small business, say, a coffee shop owned and managed by a single mom like me with maybe 3 or 4 employees, what were their margins like?

Mr. SPRIGGS. Most restaurants operate with small margins, and we do have to take seriously the fact that they do operate with small margins, but their health and the vitality of their business model is for us to beat this virus. And anything we can do and everything we can do to alleviate this virus first is important.

Ms. PORTER. And there were small margins for things like this coffee shop owner in normal times. What would happen if that bakery-owning single mom saw the price of a key input like coffee double?

Mr. SPRIGGS. If her rent went up, or if the price of coffee went up, it would put a strain. But if her input went up like coffee, it is going up for all of her competitors. And so, this would be general inflationary pressures, and it wouldn't be anything particular for her. That would be something that all of her competitors would have to face. So, a rise in coffee prices would not mean anything disadvantageous to her.

Ms. PORTER. Let's take something else then. Let's take another input into her business. What if the cost of child care suddenly quadrupled, say, because this single mom's, this business owner's children couldn't go back to school safely, then what would happen to her business?

Mr. SPRIGGS. It is not just her, but what is happening to the American workforce right now. This downturn disproportionately hurt women; they lost a much higher share of jobs. And if we don't get the HEROES Act, which the House passed, passed by the Senate, so that our State Governments and local governments can have the resources so that our schools can open safely, it is going to be a crisis for millions of American workers who are single par-

ents, and are stuck with this difficulty of how to safely care for their children. Without the HEROES Act being in place, it just simply won't be possible for women to return to the labor market as they did before.

Ms. PORTER. And, yes, I think you are absolutely right, Mr. Spriggs. This affects small business owners. It affects everyone in the workforce. But especially if you are a small business owner and you basically are your own capital, there may be no other employee who can substitute for the work that you are doing. The cost of child care is quadrupling, due to the fact that schools are not open, and it would really make it difficult for these businesses to stay in business at all. And we will see some of these folks, I fear, exiting the labor force. A big labor force and labor market disruption that will disproportionately fall on women, on people of color, on our micro businesses, and on working parents who have young kids. And that labor market disruption, I think, is a long-term as well as a short-term crisis for our economy.

I thank you for your contributions to this hearing, and I totally support any more funding towards State and local governments, including pushing for resources to help our schools figure out how to open safely and what alternatives are possible.

Thank you so much, and I yield back.

Chairman SHERMAN. Thank you.

I now recognize the gentleman from Illinois, Mr. Casten.

Mr. CASTEN. Thank you so much. I want to start just with an observation to the speakers, to my colleagues, and to the staff who are on the phone, and this is obvious, but I think sometimes we lose sight of the fact that we are in a massive economic downturn. Every single entity in our society is getting their cash constrained. Individuals who are losing their jobs, are having to dip into their savings and their retirement accounts. Small businesses are having to shoot through all of their working capital. States and municipalities are spending all of their rainy-day funds. And those of us who have the ability to deficit spend are doing so on a fairly significant basis right now, to put it mildly.

I mention that because when this is all done, there will be a reckoning. Folks are going to look out and say, in this moment, who stepped up and acted with ethics, acted with clarity and looked out for those who are needy? And who decided to hoard their reserves? That is an ethical problem, it is not a political problem. But as we saw after 2008, as we saw through the Great Depression, those ethical problems quickly become political problems. And we have to all think about it. We have to all be thinking about what we are doing in this moment to help those in need.

To that end, I want to start with a question for Ms. Simpson. According to Forbes analysis, there were \$582 billion in stock buybacks in 2018, which represented more than a 52 percent increase in 2017. Forbes estimates that the vast majority of that was due to the 2017 tax bill. Do you agree with that analysis, that the tax bill substantially experienced an increase in stock buybacks in 2018?

Ms. SIMPSON. Thank you for the question. I am not familiar with the article that you are referring to, but CalPERS' view on capital discipline in a company is that capital allocation needs to be di-

rected towards sustainable long-term growth. When there are opportunities for capital to be allocated in a way that fosters long-term sustainable growth, CalPERS is in full support. We do not support the use of capital allocation to promote short-term, or if you like to create a rosy picture; we want companies to strive for the long term. And it is that perspective that we bring to all of the considerations of capital allocation. Thank you.

Mr. CASTEN. Okay. Mr. Spriggs, do you have a view on whether the increase in 2018 was just something exogenous or was that driven by the 2017 tax bill?

Mr. SPRIGGS. Undoubtedly, some of it was the tax bill, and people took advantage of it. But some of it is this continued belief in short-termism and, a belief that if you are a CEO who gets a huge part of your pay through stock options, you have every incentive to want to incorporate stock buybacks into how you get your pay.

So, I think that is the cautionary tale there. As Ms. Simpson was saying, it is not the kind of investment that you would think should take place. You should see companies using extra capital to go into increased productivity, the training for the workers to take advantage of that new machinery and higher wages, so that the company has long-term advantages.

Mr. CASTEN. Thanks for that.

I wanted to make an observation, because in the same year, 2018, 35 percent of U.S. equities were owned by foreigners. That has increased significantly. So, if \$582 billion of buybacks was because of a tax bill, then that means that we made a decision as a country to send 35 percent of that, the amount owned by foreigners, as a direct transfer from U.S. taxpayers to foreigners.

I have a lot of respect for my good friend, Mr. Hill, but when he said that interfering with stock buybacks misallocates capital—we have an obligation not to misallocate taxpayer dollars. We made a decision to send \$200 billion to foreigners. It was a wrong decision, but we made that decision, and we should bear responsibility for it.

Dr. Spriggs, with my little bit of time left, William Lazonick at the University of Massachusetts calculated that from 2003 to 2012, buybacks accounted for 54 percent of the use of corporate earnings, and 37 percent of earnings went to dividends. That leaves just 9 percent for investment worker raises and debt repayment.

In your opinion, should we ban buybacks until we are through this COVID moment?

Mr. SPRIGGS. In this immediate moment, we do need to do it, because as you mentioned, there is a democracy issue that we are facing. People believe that the government acts to make wealthy people wealthier, and not to address the immediate needs of the country, which right now, the immediate need is to fight this virus, to have workers safe, to have workers stay home if they are sick. That is the immediate need, and all money must go to that.

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

Chairman SHERMAN. Thank you. I now recognize, last but certainly not least, Ms. Ocasio-Cortez from New York.

Ms. OCASIO-CORTEZ. Thank you, Chairman Sherman, and thank you to all of our witnesses who are joining us today. Your testimony and insight is deeply appreciated.

I think, especially as we are discussing capital markets and worker protections during this pandemic, it is an especially important topic as we are starting to see States reopen. So, I would like to thank the committee for including several of my bills that would place restrictions on corporations receiving public funds, and support protection of workers, and ensuring an equitable recovery.

I will begin with Ms. Simpson, just kind of a basic, high-level question, as an investor, when you invest in a riskier venture, would it be fair to say that an investor, investing in that risky venture, would be compensated with a higher rate of return because of the risk associated with that, as a broad, general assessment?

Ms. BUSETTE. Generally, that is correct.

Ms. OCASIO-CORTEZ. And is that same kind of compensation true for workers, in that workers who are risking their lives in meat-packing facilities, and grocery stores, are their returns higher? Are they being paid—what does their compensation look like? Do you see hazard pay, which is supposed to be a form of compensation for risk, a norm in your view?

Ms. BUSETTE. Low-wage workers, particularly those who work in the industries that you mentioned—and thank you for the question, Congresswoman Ocasio-Cortez are consistently paid very low wages for these kinds of essential jobs that put meat, poultry, and vegetables on our table. That has not changed during the pandemic.

Ms. OCASIO-CORTEZ. And so in your assessment, hazard pay is not the norm?

Ms. BUSETTE. Hazard pay is not the norm. There have been some corporations which have added some hazard pay, and then, since the economy has started to reopen in various States, have rescinded that.

Ms. OCASIO-CORTEZ. So really, when we talk about compensation for risk, it is not that all people in our economy are compensated for risk, just that a certain narrow class is compensated for risk of capital, but not necessarily risk of life.

Ms. Busette, can you briefly paint a picture of who these front-line workers are? Is there kind of a makeup in terms of race, age, class, et cetera, of those who are disproportionately represented in terms of these workers who are risking their lives?

Ms. BUSETTE. I am happy to do that. Low-wage workers, in general, are primarily Black and Brown workers, so Blacks, Hispanics, and others of that category, they also are predominantly in occupations that include things like grocery stores—I am talking about now during the pandemic—cooks, waiters, waitresses, who have moved to delivery and takeout options, and they also work in home health and in nursing homes.

These are the kinds of occupations that tend to be extremely low paid, and on top of the information I just provided, low-wage workers also tend to not have completed high school. People who do not complete high school are at a real disadvantage in any economic circumstance, and in this one in particular, their unemployment remains extremely high, one of the highest levels, even as we start to turn the corner into the recovery.

Ms. OCASIO-CORTEZ. Thank you. And I want to pivot quickly about giving folks and making sure that folks are able to preserve

extended unemployment benefits during this pandemic. There is this argument that we should not extend \$600 a month in unemployment benefits, but we have seen millions of jobs wiped out during this pandemic, and I want to ask anyone on the panel, what is the likelihood that these jobs have been lost for the foreseeable future, and what is the likelihood of all of these jobs suddenly coming back, which I believe would be the argument of not justifying the continuation of pandemic unemployment assistance?

Mr. SPRIGGS. I will take a stab at that, really quickly. The 11 percent unemployment is the worst, other than the 2 months that were the worst before that. This is still the worst labor market. We are still losing millions of jobs a month, even though we are gaining jobs. So, what the workers are looking at is the potential for long-term unemployment.

If you are a worker in one of the hardest-hit industries, those unemployment rates are actually 34 percent. So, workers in that environment are very vulnerable. That is why millions of them went instantly back to work when they were given the opportunity. This \$600 isn't about, "I don't want to work." The \$600 is that they face permanent job loss, and permanent job loss is very expensive.

Ms. OCASIO-CORTEZ. Thank you.

Chairman SHERMAN. Thank you. I would like to thank all of our witnesses for their testimony, and thank all of the Members for participating today. Today's hearing highlighted how public companies treat their workers, and how they account for human capital is critical to whether we recover from this virus, recover from the economic implosion that has brought us, and address systemic inequality that we have dealt with for decades and centuries.

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.

Mr. HUIZENGA. Mr. Chairman?

Chairman SHERMAN. The ranking member is recognized.

Mr. HUIZENGA. Yes, thank you. Sorry. I tried injecting earlier. I do have one article, without objection, I would like to place into the record, "CalPERS Prepares for the Long Haul," The Wall Street Journal article that was written by Ben Meng, and this conversation about CalPERS does affect those of us in Michigan and Ohio and other places as well, as we are talking about the long-term longevity of retirement for all workers, and Washington's seeming need to be bailing people out. So with that, I request that we submit that article for the record.

Chairman SHERMAN. Without objection, it is so ordered.

The hearing is adjourned.

[Whereupon, at 2:09 p.m., the hearing was adjourned.]

A P P E N D I X

July 14, 2020

**Subcommittee Hearing Remarks: “Promoting
Economic Recovery: Examining Capital Markets and
Worker Protections in the COVID-19 Era”**

Date: July 14, 2020

Congressman: Patrick McHenry (NC-10)

Re: Opening Remarks

I thank Chairman Sherman for yielding.

I’d like to be able to thank you for holding this
important hearing, but, unfortunately, it’s not.

This is another chance for Democrats to trot out a
grab bag of bills that will do nothing to create jobs or
keep Americans employed.

Instead of working together on bipartisan solutions
that have a chance of becoming law, we’re going to spend

our day discussing far-left proposals that will not help our economy recover.

We should prioritize policies that enable entrepreneurs to pursue new opportunities and allow businesses to focus their resources on employees and growth instead of costly compliance requirements to connect it to worker protections.

Let's get back to what we know works: bipartisan legislation, like CARES Act, that keep Americans working and businesses open. Anything else is a waste of time.

I yield back.



Statement of the U.S. Chamber of Commerce

ON: Promoting Economic Recovery: Examining Capital
Markets and Worker Protections in the COVID-19 Era

TO: Subcommittee on Investor Protection, Entrepreneurship
and Capital Markets

BY: Neil Bradley, Executive Vice President and Chief Policy
Officer, U.S. Chamber of Commerce

DATE: July 14th, 2020

1615 H Street NW | Washington, DC | 20062

The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Chairman Sherman, Ranking Member Huizenga, and members of the Subcommittee on Investor Protection, Entrepreneurship and Capital Markets: my name is Neil Bradley, executive vice president and chief policy officer of the U.S. Chamber of Commerce (“Chamber”). Thank you for the opportunity to testify today regarding the current state of America’s capital markets and the nation’s workforce in the wake of the coronavirus pandemic.

For the last several months, Americans have endured a period of incredible hardship. The lives lost from the pandemic are a national tragedy, and many people remain deeply concerned over the health of their loved ones. But even during these difficult times, we continue to hear stories of individuals and businesses doing extraordinary things to help their families and communities. Most of these stories will not make national headlines, but they showcase the resilience of Americans who—when faced with the most daunting challenges—still come together and see our nation through a crisis.

The pandemic also triggered the swiftest and most severe economic downturn in U.S. history. Millions of Americans have lost their jobs and businesses are struggling to survive as some parts of the economy ground to a near halt. While the employment gains in May and June are a welcome and positive sign, we have a long way to go and the rapid spread of the disease in a growing number of states will only slow the process. This uncertainty is unlike anything businesses have ever faced and points to a long road ahead in terms of a full economic recovery.

The government response to the pandemic is also unprecedented in its scope and scale. The Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequent legislation authorized over \$650 billion for the Paycheck Protection Program (PPP) that has been an indispensable lifeline for businesses, while the Federal Reserve has committed to providing upwards of \$3 trillion in credit through a number of emergency lending facilities. These actions have stabilized markets, helped businesses stay afloat, and allowed millions of Americans to continue to earn a paycheck.

While this has been an extraordinarily challenging time for businesses of all sizes, one thing is clear: American businesses are critical to our country’s economic recovery and will be at the forefront of shaping what a post-pandemic economy and workplace look like. Whether it is joining the race to find a vaccine and treatment, reorienting assembly lines to produce productive equipment for those on the front lines, or taking extraordinary measures to help employees or their communities, America’s businesses and their workers have stepped up and shown they are willing and able to meet this national challenge.

As emergency measures continue to make their way through the economy and additional relief is considered, the Chamber believes it is critical that policymakers recognize the evolving nature of the recovery. Congress and regulators should not assume that work and life will go back to “business as usual” once the pandemic is over. Temporary actions taken by companies – including moving certain operations online or providing flexible work arrangements – will in many cases become permanent. Access to capital and an appropriate regulatory environment will be necessary to assist workers and businesses as these changes permeate throughout the economy.

The Chamber’s views on the current state of our economy, the American workforce, and certain legislative proposals to be considered at today’s hearing are discussed in further detail below.

The Current Economic and Employment Situation

The economic shock caused by the pandemic is unprecedented in both speed and severity. Since March, over 45 million Americans have filed unemployment claims, and the current unemployment rate is 11.1%. The Federal Reserve Bank of Atlanta estimates that gross domestic product (GDP) collapsed by over 35% in the second quarter¹, and some economists predict that total GDP for 2020 will fall by 5% or more.

The pain has been especially pronounced in certain industries that are more vulnerable to lockdowns. For example, by the end of April, 46% of employees in the food, travel, and events industry lost their jobs, the retail industry lost 14% of its employees, and the services industry lost over 17%.² Most of the employees in these industries are part-time or hourly wage earners and can ill-afford a long-term interruption in their ability to earn a livelihood.

A University of Chicago study demonstrates how the economic crisis has disproportionately disrupted the lives of lower-wage workers. The study found that only 37% of the U.S. workforce is fully capable of working remotely.³ This demographic is largely made up of white collar, higher-wage positions that can be done anywhere from a laptop. The stay-at-home orders and mandated government

¹ Federal Reserve Bank of Atlanta: GDPNOW. Available at <https://www.frbatlanta.org/cqer/research/gdpnow>

² Analysis: Breaking Down the Unemployment Crisis by Industry. May 20th, 2020. Available at <https://www.uschamber.com/series/above-the-fold/analysis-breaking-down-the-unemployment-crisis-industry>

³ How Many Jobs Can Be Done From Home? Jonathan Dingel, Brent Neiman. April 16th, 2020. Available at <https://bfi.uchicago.edu/working-paper/how-many-jobs-can-be-done-at-home/>

shutdowns of businesses affect blue collar and service-oriented workers much more than they do office jobs.

A series of surveys conducted by the U.S. Chamber and MetLife also shows how dire the situation has become for small businesses over the last several months. By early April, 43% of small businesses believed that they were less than six months away from *permanent* closure, which would have eliminated millions of jobs throughout our economy. The latest Chamber/MetLife showed that while the vast majority of small businesses (79%) had either fully or partially reopened by early June, over half (55%) believe it will take six months to a year before the U.S. business climate returns to normal.⁴

As businesses continue to open their doors, the safety of employees and customers and compliance with state and local guidelines is of paramount concern. As part of our Path Forward initiative, the Chamber has provided sector and state-specific guidance for businesses as they re-open.⁵ The Chamber also recently called on the Trump Administration and the nation's governors to establish standards for imposing mandatory mask requirements.⁶

It is important for policymakers to keep in mind that this crisis was not caused by a market or regulatory failure and did not originate as part of the normal business cycle. Countless businesses and workers have been harmed through no fault of their own and in many cases were mandated by a government entity to shut down or limit their operations. Relief efforts should focus exclusively on ensuring businesses and households can meet their obligations until the economy returns to more normal conditions.

Importance of Lending Programs for Workers and the Economy

The Chamber supported the inclusion of several provisions in the CARES Act, including the PPP for businesses with no more than 500 employees. As recently reported by the Small Business Administration (SBA), as of July 1st the PPP has provided over \$520 billion in loans that supported 51 million jobs, making the program one of the more critical tools to helping small businesses survive.

⁴ Chamber/MetLife Coronavirus Impact Poll, June 3rd, 2020. Available at <https://www.uschamber.com/report/small-business-coronavirus-impact-poll-june#latest>

⁵ <https://www.uschamber.com/reopening-business>

⁶ Letter available at <https://www.uschamber.com/letters-congress/joint-letter-business-leaders-call-president-vp-and-nga-lead-face-covering-concerns>

The CARES Act also provided \$454 billion in funding for Federal Reserve lending facilities under Section 13(3). Since mid-March, Treasury has approved the establishment of the following facilities:

- The Commercial Paper Funding Facility
- The Primary Dealer Credit Facility
- The Money Market Mutual Fund Liquidity Facility
- The Term Asset Backed Securities Loan Facility
- The Primary Market Corporate Credit Facility
- The Secondary Market Corporate Credit Facility
- The Main Street Lending Program
- The Municipal Liquidity Facility; and the
- PPP Liquidity Facility

As Secretary Mnuchin recently noted before this Committee, Treasury has appropriated roughly \$200 billion of CARES Act funding and stands ready to commit the remaining \$250 billion as necessary. The Federal Reserve and Treasury have appropriately made necessary adjustments to a number of these programs to ensure they are accessible for market participants.

Of particular note is the \$600 billion Main Street Lending Program (MSLP), which recently became operational and is intended to provide credit for middle market businesses. While the Federal Reserve has made several changes to the terms of the MSLP, the Chamber remains concerned that the program remains too restrictive for borrowers. We are particularly concerned about indiscriminate prohibitions on shareholder distributions as well as restrictions on “affiliated” borrowers from accessing the MSLP. The Chamber will continue to work proactively with Treasury, the Federal Reserve, and Congress to ensure that the MSLP meets its ultimate objectives.

Improvements to U.S. Capital Markets

One notable recent development has been the increase in business formations across the United States. According to U.S. Census data, high-propensity business applications (which the Census Bureau defines as “applications that have a high propensity of turning into businesses with payroll”) have seen a significant increase in

recent weeks as compared to last year.⁷ Undoubtedly, some of these businesses are being formed by individuals who have been laid off or seen an interruption in their pay. This surge in business formation is a welcome change as the last decade was a period of historically low business formation following the 2008 financial crisis.

In order for these newly-formed and other young businesses to survive, they must be able to communicate with potential investors and have access to capital. The Securities and Exchange Commission's ("SEC") regulatory agenda contains several initiatives that would help increase access to capital and reduce regulatory burdens during this time. These include modifications to rules governing crowdfunding offerings, harmonizing exempt offerings, amendments to the definition of an "accredited investor," and disclosure simplification. These rulemakings should be finalized and implemented without delay, and the SEC has stated it has the capacity to continue this agenda while properly managing the COVID crisis.

The Chamber is also currently working on developing proposals that will specifically focus on access to capital for minority-owned businesses. Just last week, the Chamber released our initial [Equality of Opportunity Agenda](#) that includes a number of proposals for how to promote entrepreneurship and create jobs in minority communities. We look forward to working with Congress on a bipartisan basis as some of these proposals develop.

There are several current legislative proposals that Congress should consider that would expand opportunities for businesses. Much of the bipartisan "JOBS Act 3.0" bill negotiated by Chairwoman Waters during the last Congress is even timelier and should be taken up by Congress. Swift enactment of such a bipartisan package, in addition to recent measures put forward in the wake of the pandemic, would provide a big boost to our economic recovery. Some of these legislative proposals supported by the Chamber include:

- **H.R. 6253, the "Crowdfunding to Combat the Coronavirus Act"** H.R. 6253 would eliminate offering ceilings under Regulation Crowdfunding, Regulation A, and Regulation "A+" under the Securities Act. While this would provide important capital raising options for companies not ready to complete an IPO, the SEC should remain vigorous in its enforcement of any company – regardless of what exemption they may use under the securities laws – that makes false claims, particularly related to the pandemic.

⁷ <https://www.census.gov/econ/bfs/index.html>

- **H.R. 6252, the “Relief for Small Businesses Through Micro-Offerings Act of 2020”** This bill would provide an exemption from registration requirements for small offerings that do not exceed \$250,000 in the aggregate, no more than \$5,000 to any one investor, and that is conducted through a regulated broker or funding portal. This would benefit entrepreneurs that are looking to raise relatively small amounts of capital and cannot afford costly legal and registration requirements.
- **H.R. 4860, the “Crowdfunding Amendments Act”**– The Crowdfunding Amendments Act would address some of the unnecessary compliance burdens that currently exist under the SEC’s crowdfunding rules by allowing for the use of “crowdfunding vehicles” and also exempting securities issued in crowdfunding offerings from registration requirements under the Securities Exchange Act.
- **H.R. 1909, the “Helping Angels Lead our Startups Act” (HALOS)** – The HALOS act would help startup businesses communicate with potential investors by clarifying the definition of “general solicitation” under the 2012 Jumpstart our Business Startups (“JOBS”) Act. The bill would affirm that startups and angels can participate in “demo days” or other similar events where no specific offerings of securities are made.
- **H.R. 7375, the “Access to Small Business Investor Capital Act”** H.R. 7375 would exempt business development companies (BDCs) from the acquired fund fees and expenses (“AFFE”) requirement which currently mandates the disclosure of misleading information regarding the costs of investments in BDCs. Passage of this bill will increase institutional investment in BDCs, which are a critical source of nonbank financing for small and middle market companies throughout the country.
- **H.R. 6254, the “Gig Economy Infrastructure Act”** This legislation would expand the pool of workers that can receive equity compensation under the SEC’s Rule 701 to include independent contractors and “gig” economy workers.
- **H.R. 609, the “Small Business Mergers, Acquisitions, Sales, and Brokerage Simplification Act of 2019”** H.R. 609 would create an appropriate registration framework for mergers and acquisitions (M&A) brokers that help private companies (those with less than \$250 million in annual revenue) with transfer of ownership.

- **H.R. 2899, the “Main Street Growth Act”** establishes the legal framework for the creation of “venture exchanges” in the United States. Venture exchanges would provide a better trading environment for small capitalization companies and ultimately make the public markets more attractive for growing businesses.
- **H.R. 4918, the “Helping Startups Continue to Grow Act”** This bill would extend emerging growth company (EGC) status under the JOBS Act for businesses that have maintained all other conditions of being an EGC but have run up against the five-year window. The extension would help these businesses focus their resources on employees and growth in the wake of the pandemic instead of costly compliance requirements. Importantly, the scaled disclosure and other provisions of Title I of the JOBS Act have not jeopardized the protection of investors – building upon the success of the JOBS Act is a smart and bipartisan approach that Congress should take.
- **H.R. 2919, the “Improving Investment Research for Small and Emerging Issuers Act”** This bill would direct the SEC to study and provide recommendations for how to improve research coverage for small capitalization and pre-IPO companies. A lack of analyst coverage in small companies has plagued much of our equity markets for years. This bill would ultimately help increase the flow of information to investors.
- **H.R. 4762, the “Fair Investment for Professional Experts Act”** This bill would expand the SEC’s definition of accredited investor beyond existing income and net worth thresholds, an initiative that is currently underway at the SEC. This would open up opportunities to invest in certain private businesses for investors that can fully understand the risks and rewards associated with such investments.
- **H.R. 3987, the “Alleviating Stress Tests Burdens to Help Investors Act”** This bill would amend the stress test requirements under the Dodd-Frank Act by exempting nonbank financial institutions that are not under supervision by the Federal Reserve. The Chamber has long argued against the misguided application of bank-centric regulation and supervision to non-bank companies. The professional staff of the Securities and Exchange Commission has concurred. In 2016, the SEC Chief Economist described how the application of stress tests to asset managers was premised on a “false parallel.”

- **H.R. 4076, the “Modernizing Disclosures for Investors Act”** This bill permits an alternative method for public companies to provide quarterly disclosures, including through a shortened form or press release. This would cut down on repetitive and costly disclosure requirements without depriving investors of material information they need to make informed decisions.

Additional Legislation under Consideration

Regrettably, many of the bills up for discussion at today’s hearing would impede our economic recovery by placing substantial burdens on businesses. Further, the policy issues underlying many of these bills are entirely unrelated to the unique nature of the pandemic and are drafted on the assumption that the economic crisis was the result of a market or regulatory failure. Accordingly, the Chamber opposes the following measures:

- **H.R. ____, Permanent requirements on large accelerated filers receiving Federal aid.** This bill would impose mandated disclosure and corporate governance requirements on certain public companies regarding political spending, human capital management, environmental, social, and governance (ESG) issues, federal aid, and country-by-country financial performance.

As the Chamber explained in testimony to the Senate Banking Committee last month, using this crisis and exploiting the CARES Act facilities to pursue unrelated policy goals – or to shame certain companies or industries for availing themselves of programs they are legally eligible for – should not be confused with legitimate Congressional oversight of these programs. The crisis should also not be used as an excuse to shoehorn policies that have otherwise already been rejected through the democratic process. Our economy will never fully recover if lending programs become politicized and used as a mechanism to direct policy outcomes that are uncorrelated to putting Americans back to work and getting the economy growing again. And public frustration will grow if people see Congress focused on political fights instead of targeted and immediate relief.

Accordingly, the Chamber strongly opposes this bill that would impose *permanent* requirements on businesses that received Federal aid during this crisis. Using the crisis to impose one-size-fits-all disclosure mandates on public companies would only harm shareholders and workers that depend on vibrant public markets for their retirement. The vast majority of companies already

report on ESG issues voluntarily and are responsive to investor concerns regarding ESG. The Chamber has also consistently opposed efforts by special interests to mandate the disclosure of certain political spending. Electioneering activities that are the subject of such a rulemaking petition are already disclosed under election law, and such a petition is outside the jurisdiction of the SEC. Furthermore, shareholders have routinely rejected these disclosures when they have been proposed by shareholder resolution.⁸

- **H.R. __, the “Ensuring Shareholder Governance Act of 2020”** would prohibit the SEC from implementing a long-overdue rulemaking regarding the shareholder proposal system under Rule 14a-8 of the Securities Exchange Act. The shareholder proposal system exists to facilitate constructive communication between shareholders and companies but has devolved over the years into a mechanism that special interests use to advance their own agendas at the expense of shareholders as a whole.

The “resubmission thresholds” under Rule 14a-8 have not been updated in decades. This has allowed special interests to continuously submit unpopular, immaterial proposals year after year at great cost to shareholders. A 2018 [report](#) from the Chamber showed that “zombie” shareholder proposals – those that have been submitted three or more times at a company without garnering shareholder support – constituted roughly 30% of all proposals submitted during the years 2001-2018.

The current resubmission thresholds permit proposals to be continuously submitted even if 90% of shareholders routinely vote against them. This has allowed matters of a social and political nature to proliferate on corporate proxies at great cost to companies and shareholders. According to the Manhattan Institute, [only 6% of all shareholder proposals](#) at Fortune 250 companies received majority support in 2019, down from 11% in 2017 and 10% in 2018.

Nothing in the SEC’s proposed rulemaking would “disenfranchise” shareholders in any way. Shareholders would still be able to submit proposals and have their voice heard. But if the vast majority of other shareholders oppose them, they won’t be able to continuously impose costs and distractions year after year.

⁸ A study by the Manhattan Institute has found that shareholder proposals for political spending disclosures at Fortune 250 companies only garner, on average, 18% support.

- **H.R. 6778 to amend the CARES Act of 2020 to place certain requirements on corporations receiving Federal aid related to COVID-19**
H.R. 6827, the “Corporate Accountability Act,” H.R. 6851, to require major corporations receiving Federal aid related to COVID-19 to make annual payments of equity to employees of the corporation while such aid is outstanding, H.R. — Temporary requirements on all corporations receiving Federal aid; and H.R. — Temporary requirements on all corporations receiving Federal aid until all aid has been repaid. These bills would collectively place prohibitions on companies amending certain benefits plans and collective bargaining agreements, impose limitations on certain executive compensation, mandate minimum wage requirements on all businesses, and require disclosures that are immaterial to investors. As noted previously, the coronavirus pandemic is unique in that businesses have had to seek Federal aid through no fault of their own, and once lockdowns were imposed it was their only financing option available. The PPP and other programs are not designed to benefit executives or a small number of employees: they are designed to ensure that employees of all learning levels are able to still receive a paycheck until the crisis recedes. Further imposing burdens on businesses – some of which are intended to achieve long sought policy goals unrelated to immediate relief – is the wrong approach.

While the Chamber is more than willing to engage in discussions with lawmakers regarding a national minimum wage, we strongly oppose efforts to tie such a discussion to businesses (many of which are struggling to survive) that availed themselves of programs passed almost unanimously by Congress. Moreover, as the Chamber pointed out in a [letter](#) last year to the House, the Congressional Budget Office has estimated that an increase to \$15/hour would result in as many as 3.7 million workers losing their jobs. An increase to \$10, on the other hand, would raise the wages for approximately 3.5 million workers with minimal job losses

- **H.R. 6339 to temporarily ban stock buybacks until the impact of COVID-19 on the American financial system has ended** is another misguided attempt to ban share repurchases by public companies. As the Chamber has noted previously, businesses must make the most productive decisions possible with the capital they have – share repurchases are one method companies use to return capital to shareholders. There is no evidence that share repurchases are part of a “zero sum game” and take away from other capital expenditures. In fact, research and development by companies reached record highs in recent years even as share repurchases increased, while the 2017

tax reform bill allowed many companies to increase hiring and provide bonuses and raises to employees. Investors are also harmed if businesses are hamstrung in their ability to deploy capital efficiently – an important fact given that Americans rely on consistent investment returns in order to have a secure retirement or send a child off to college. H.R. 6339 is a wholly misguided bill and should be rejected by this Committee.

- **H.R. 6852, to prohibit the Secretary of the Treasury and the Board of Governors of the Federal Reserve System from waiving provisions related to COVID-19 emergency relief and taxpayer protections for such relief.**
 In late March, Congress recognized the urgency of our nation’s economic situation, and passed the CARES Act by a vote of 419-6 in the House and 96-0 in the Senate. The CARES Act established the PPP and granted authority for emergency lending programs under Section 13(3) of the Federal Reserve Act. The legislation wisely granted discretion to the Treasury Secretary and Federal Reserve to waive certain prohibitions placed on borrowers, for example certain corporate governance restrictions, payments of dividends, and share repurchases. We believe this discretion should be retained and have called for Treasury and the Federal Reserve to use prudence when deciding when prohibitions should remain in place. Businesses still need to attract and retain investors, and the CARES Act should not be used as a vehicle to impose policy goals that don’t prioritize getting Americans back to work. Accordingly, the Chamber opposes this legislation.
- **H.R. 5933, the “Disclosure of Tax Havens and Offshoring Act”** H.R. 5933 would impose unworkable and complex reporting requirements on companies with operations overseas without providing any decision-useful information for investors. Further, the materiality standard that has guided corporate disclosure for decades would already capture any information this bill attempts encompass. Recent mandated disclosures that stray from the principle of materiality – such as the conflict minerals and pay ratio rule – have only imposed costs on public company shareholders and not contributed to long-term value creation.

Conclusion

Despite the unprecedented headwinds of the last few months, America’s capital markets have shown remarkable resiliency and businesses are eager to fully re-open their doors for customers and their employees. The Chamber looks forward to continuing to be an active partner with Congress and the administration to ensure that

relief measures help our economy recover as quickly as possible. Thank you again for the opportunity to testify, I would be happy to answer any questions you may have.

Camille M. Busette, PhD

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The Brookings Institution

Testimony to the House Financial Services Committee

Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets

Hearing on “Capital Markets and Emergency Lending in the COVID-19 Era”

Tuesday, July 14, 2020

Chairman Sherman, Ranking Member Huizenga and members of the Subcommittee, it is an honor to participate in today’s hearing on capital markets and emergency lending in the COVID-19 era.

I. Introduction

The 2020 COVID-19 pandemic has triggered the deepest downturn in output and employment since World War II. Americans have experienced the downturn broadly across sectors, yet unequally across racial groups and categories of workers. Blacks, Latinos and Native Americans along with low-wage workers have borne the health and financial costs of this pandemic.

With the CBO now projecting real gross domestic product (GDP) to recover to its pre-pandemic level only by the middle of 2022,¹ policymakers should be thinking now about not only how to address urgent economic issues but also how to position the U.S. economy for a broad-based and equitable rebound that harnesses the potential of the tens of millions of Americans who are currently unemployed or underemployed.

To position the economy for a robust recovery from this specific downturn, Congress and other policymakers must craft policy and fiscal responses that address the particular characteristics of this COVID-19 economic recession. Briefly, what we think of as a public health crisis has also deepened an existing equity crisis for Blacks, Latinos, and Native Americans. In addition, the pandemic recession specifically threatens the financial and general well-being of tens of millions of American workers.

Those characteristics of this recession demand policy solutions that actively reduce racism and the growing inequality that has been the most recent hallmark of the pre-pandemic economy. Those solutions should focus on three broad efforts:

1. Closing the racial wealth gap
2. Improving wages and opportunities for upward mobility for Americans who earn low wages
3. Eliminating the existing health disparities that are prevalent in low-income communities of color

While there is a pervasive rhetoric about returning to “normal,” that is, to the immediate pre-pandemic past, what I want to impress upon you today is that a robust American economy will require that we do not return to the status quo ante, because the status quo ante has meant the perpetuation of racism in our economy as well as the continuation of financial and health insecurity for almost half of the American workforce.

We, therefore, should work to establish a set of goals that simultaneously speak to the breadth and the quality of the recovery. A high-quality recovery is one that puts the U.S. in a position to accelerate economic growth by generating jobs that provide economic security across a wide range of sectors and by addressing the disparate economic consequences of the pandemic on communities of color and low wage workers.

II. The Pre-pandemic Economy

The COVID-19 pandemic and the ensuing recession have exposed the financial fragility of millions of American families, the health legacy of racism and exclusion, made us understand that we depend on Brown and Black Americans for our fruits and vegetables, our meats, poultry, and seafood, our groceries more generally, our transportation, our nursing home care, for cleaning our homes, taking care of our children and for the sanitation of our streets and our hospitals. In short, the COVID-19 pandemic has highlighted the choices we have made as nation about who was included and who was excluded from the robust economy prior to March of 2020.

A review of where we were prior to March 2020 underscores why it is important to make other choices now.

Black unemployment remained high. Immediately prior to the pandemic, our national unemployment rate was 3.5% in February of 2020ⁱ, yet our Black unemployment rate was 6.8%. With a Black unemployment rate roughly double that of whites, it is apparent that the pre-pandemic economy was not at full potential, likely something we will not want to embrace as we start to gain traction in a competitive global context.

The Black/white wealth gap remained a constant feature of the American economy. Prior to COVID-19, Black households held a tenth of the wealth that white households held.ⁱⁱⁱ At \$171,000, the net worth of a typical white family was nearly ten times greater than that of a Black family (\$17,150) in 2016 and reflected the effects of accumulated

inequality and discrimination, as well as differences in power and opportunity that can be traced back to this nation's inception. The Black-white wealth gap reflects a society that has not and does not afford equality of opportunity to all its citizens and is therefore an economy which is not operating at full potential. Moreover, recent research demonstrates that since 2010, the racial wealth gap between Black and white households actually increased, suggesting a pre-pandemic context of narrowing opportunities for Black Americans.^{iv}

The Black/white income gap increased. Beyond wealth accumulation, the pre-pandemic economy was characterized by persistent income inequality between Blacks and whites. The difference in median household incomes between white and Black Americans grew from about \$23,800 in 1970 to roughly \$33,000 in 2018 (as measured in 2018 dollars). Median black household income was 61% of median white household income in 2018.^v

Communities of color experienced persistent health vulnerabilities. We also do not want to return to the pre-pandemic health and well-being environment. In the pre-pandemic environment, we find that as a consequence of endemic racism^{vi}, communities of color had higher incidences of preventable but dangerous diseases -- hypertension, asthma, obesity, and diabetes.^{vii} And these are precisely the diseases that place Americans of color at higher risk of contracting and dying from COVID-19.

The mortality rate of poor whites increased. In addition, prior to the pandemic, poor whites were also experiencing poor well-being outcomes -- their death rates were disproportionately high, particularly in post-industrial areas with few jobs and with access to opioids.^{viii}

Low-wage workers bore the brunt of the economic expansion that began in 2010. Prior to the pandemic, our growth economy was built on the expansion of low wage jobs^{ix} where 53 million Americans between the ages of 18 to 64 — accounting for 44% of all workers — qualified as 'low-wage.' Their median hourly wages were \$10.22, and median annual earnings were about \$18,000.^x

Low-wage workers were more vulnerable to the impacts of the pandemic. Not surprisingly, then, women, and particularly women of color, were the most vulnerable to the effects of the pandemic-induced recession. Nationally, prior to the pandemic, 32% of male workers made less than \$15 an hour. However, a higher percentage, 42%, of women workers were in the same situation. By race, 38% of white women, 49% of black women, and a staggering 57% of Hispanic women were low wage earners prior to the pandemic recession. In nine states, more than half of all women are low wage workers. The majority of Latina women are low wage earners in 43 states and of Black women in 28 states. Men of color were also disproportionately vulnerable to this recession: 49% of Latino men and 45% of Black men made less than \$15 an hour, compared to 28% of white men. The majority of Latinos and the majority of Black men made less than \$15 an hour in 24 and 19 states respectively.^{xi}

The health insurance status of millions of Americans was precarious. Before the pandemic, millions of Americans were losing health insurance.^{xii} Since the pandemic, the most recent estimate is that as of May 2020, nearly 27 million people in the U.S. may have lost employer-sponsored insurance due to the deep job losses brought on by the COVID-19 pandemic.^{xiii}

What each of these statistics illustrates is that the pre-pandemic economy was one of great insecurity and inequity for millions of Americans. Importantly, the picture of a pre-pandemic American economy, appearing robust, but weakened by the tapeworms of inequity and inequality existed within the context of growing inequality overall in the U.S. where, over the past 50 years, the highest-earning quintile of U.S. households has steadily brought in a larger share of the country's total income. In 2018, for example, households in the top fifth of earners (with incomes of \$130,001 or more that year) brought in 52% of all U.S. income, more than the lower four-fifths combined, according to Census Bureau data.^{xiv} In addition, the wealth gap between America's richest and poorer families more than doubled from 1989 to 2016. And finally, to put the U.S. figures in a global context, income inequality in the U.S. is the highest of all the G7 nations, according to data from the Organization for Economic Cooperation and Development (OECD).^{xv}

As a result of the policy and fiscal choices we made prior to the pandemic, headline GDP and unemployment figures that were clearly strong coexisted with a widely experienced deep financial insecurity and poor health outcomes.

III. Characteristics of the current COVID-19 crisis

The COVID-19 pandemic has only served to exacerbate the degree to which racism and inequality led to the exclusion of large segments of the American population from our booming pre-pandemic economy. As we now know, the COVID-19 pandemic has had a disparate and devastating health impact on low income communities and communities of color.

Blacks, Latinos, and Native Americans are at very high risk of contracting and dying from COVID-19. As a result of structural conditions, health inequities, and a higher prevalence of preexisting health conditions such as heart disease, asthma, and diabetes, low-income and minority populations face a demonstrably higher risk of dying from COVID-19. In the largest and most recent study drawn from the Centers for Disease Control and Prevention COVID-19 data, it is clear that being either Black or Latino is a risk factor for contracting and dying from the disease. These two communities have been disproportionately affected by the coronavirus in a widespread manner across all geographies and age groups.^{xvi} The mortality rate from the virus is nearly three times higher for Black and Latino Americans than for whites. Moreover, other data from the Indian Health Service indicates that Native American populations, too, are adversely affected by COVID-19 which is manifested in very high infection rates.^{xvii} Health disparities that existed prior to COVID-19, are the result of conscious policy choices and a set of values

that normalized the exclusion of communities of color from investments that lead to better health outcomes.

In addition, low-wage workers who are still employed face increased health risks due to the nature of their jobs because they dominate many of the “essential worker” categories. Common occupations for low-wage workers include cashiers and retail salespersons, many of whom may not be working as businesses have closed; however, those who are working in “essential businesses” that remain open (such as grocery stores) are still in close contact with the public. Other top occupations, such as cooks and waiters/waitresses, may similarly still be working as restaurants move to delivery and take-out options, putting these workers in contact with colleagues and perhaps the public. A notable number of low-wage workers are engaged in positions that are likely involved with delivery of goods and services to people who remain at home under stay at home orders (e.g., laborers/freight, stock and material movers, stockers/order fillers, and drivers/truck drivers).

Moreover, a large number of low-wage workers are working directly in the health care workforce. 3.5 million low-wage workers are in the health and social services industry, with the greatest number of those (1.3 million) working as aides or personal care workers whose jobs will bring them into frequent, close contact with patients. Nearly a million more work as direct contact support workers—jobs such as maids/janitors, housekeeping and laundry, or food service workers—whose jobs also will bring them into direct contact with others. Within these two occupation groups, a third or more of workers are low-wage.

The economic impacts of COVID-19 and the resulting economic depression also disproportionately fall on low-wage workers and on Black and Brown workers. As we saw earlier, **Blacks and Hispanics were more likely to be employed in low-wage jobs** than were whites. Because so many of those jobs were in sectors most devastated by the COVID-19 recession, **the unemployment rate during the pandemic has been highest among Blacks and Hispanics.**^{xviii}

Low-wage workers have experienced deep economic pain and job losses during the pandemic. Social distancing measures taken in response to COVID-19 resulted in massive job losses concentrated among lower-wage workers. Occupations with lower wages are more common in the shutdown sectors than elsewhere in the economy.^{xix} Retail and leisure/hospitality, which typically offer lower wages than other industries, took the hardest hits.

Low-wage workers with the least education have suffered the most. In June of 2020, the unemployment rate was 16.6 percent for those with less than a high school degree—more than twice as high as the 6.4 percent unemployment rate for those with a bachelor’s degree or higher.^{xx} Financial shocks and unemployment are widespread, but Black and Latino or Hispanic workers are disproportionately affected due to their prevalence in low-wage occupations.

One of the reasons low-wage workers have suffered disproportionate job losses is their limited ability to telework. Low-wage workers are six times less likely to be able to work from home than high-income workers.^{xxi} Fewer than 10 percent of leisure and hospitality workers can telework, while a majority of workers in higher-paid fields such as the finance, business, professional, and information sectors can. The vast majority of workers who held jobs prior to the pandemic in restaurants, bars, gyms, salons, movie theaters, and malls could not perform those jobs from home once the pandemic started and were laid off when social distancing requirements caused many of those establishments to close.

In sum, the economic impact of the COVID-19 recession has hit low-wage workers and Black and Brown Americans especially hard.

As we turn the corner into recovery, Blacks and Hispanics continue to face headwinds in employment. In the early stages of economic recovery, the economic challenges to employment persist for Black, Hispanics, and those without a high school diploma. Even as reopening has begun, Blacks and Hispanics are having a harder time finding employment than whites. As of the most recent BLS unemployment report for June of 2020, it is clear that without some clear support from the U.S. government, the previous patterns of financial insecurity and racial disparities will worsen. What we see is that while the unemployment rate declined to 11.1 percent in June, we see a persistent gap between white unemployment (10.1 percent) and that of Blacks (15.4 percent) and Hispanics (14.5 percent), suggesting that previous racial disparities in unemployment rates will continue. Educational status matters as well: the unemployment rate for those with less than a high school diploma at 16.6 percent is more than double that of those with a Bachelor's degree or higher (6.9 percent).^{xxii}

Again, reviewing the most recent BLS data, in the sectors that had the highest proportion of low-wage workers, we see that the recovery has been slow and that low-wage jobs that lead to financial insecurity persist. In June, employment in food services and drinking places rose by 1.5 million, following a gain of the same magnitude in May. Despite these gains, employment in food services and drinking places is down by 3.1 million since February. In addition, employment in retail trade rose by 740,000 in June, but that on net, employment in the industry is 1.3 million jobs lower than in February. While, health care employment increased by 358,000 over the month, job losses in low-wage nursing care facilities, continued (-18,000). Finally, reflecting the increase in low-wage jobs overall, in June, average hourly earnings for all employees on private nonfarm payrolls fell by 35 cents to \$29.37. Average hourly earnings of private-sector production and nonsupervisory employees decreased by 23 cents to \$24.74 in June. The decreases in average hourly earnings largely reflect job gains among lower-paid workers. The conclusion from this most recent jobs report then, is that in industries dominated by low wage workers, there has been at best an anemic growth in jobs and that low-wages that are responsible for financial insecurity persist.

If a recovery has begun, these facts do not augur well for it being a broad-based and equitable recovery.

IV. How to Ensure a Broad-based and Equitable Recovery

Although we are in a recession and the trajectory of the COVID-19 pandemic in the U.S. is a source of considerable uncertainty, there are steps that Congress and other policy-makers can take now to ensure that the post-pandemic economy is not one of high inequality and high levels of health and financial inequities engendered by racism.

Here, I outline three specific goals and how Congress can contribute to achieving them.

1. **Closing the racial wealth gap.** Given persistent racial wealth and income gaps, our first goal must be to establish equity goals for the economy. At the current moment, the Fed is charged with managing inflation, the liquidity of various money markets, and attuning its policies to discourage high unemployment. To start the process of redressing racial financial gaps, the Fed should be charged with pegging its policies to lowering the Black unemployment rate until it matches the white unemployment rate.^{xxiii} A Fed policy stance that is pegged to improving Black employment has the potential to not only move the economy into higher gear by ensuring that all those who can contribute to growth and innovation are able to do so, but it may also have the effect of lifting the fortunes of others as a collateral effect.

In addition to charging the Fed with a focus on lowering the Black unemployment rate, Congress should do as much as it can to support Black and Latino small businesses, which provide jobs and economic activities at the local level. While all small businesses will need support to rebound, Black and minority owned businesses face more hurdles in accessing liquidity and support services. Black- and minority-owned businesses that continue to operate during and after the recession are about 60 percent less likely than their peers to receive 100 percent of the financing they need, which puts them at additional risk of failure. Black employers are also less likely to seek advice from professionals, possibly reflecting the cost of accessing such services. Because Black and minority owned businesses are a consistent source of employment for Black and other workers of color and local investment, interventions to support their survival are urgent.^{xxiv}

The supports to these businesses should not only be focused on providing short term liquidity, but also on incentivizing lending and addressing banks' concerns about the risk of lending to underserved small businesses.

Finally, we should be thinking about how to craft payments to Black families that are designed to remunerate them for the effects of public policies intended to exclude them from participating in the economy.

2. **Improving wages and opportunities for upward mobility for Americans who earn low wages.** As we have seen earlier in this document, our pre-pandemic

economy was one of great insecurity for millions of low-wage workers. With the advent of COVID-19, these Americans' financial worries have continued either because they have lost their jobs or cannot work due to health concerns. With a recession that will be lengthy, it is time to take lessons from the CARES Act and apply them for a sustained period to ensure that low-wage workers can participate in an economic recovery. The CARES Act provided an additional \$600 per week for those who were claiming unemployment insurance (UI). The \$600 per week payments have kept millions of Americans from experiencing a financial catastrophe. Those payments have also kept American businesses afloat because they support consumer spending – groceries, pharmacies, rent, etc. In fact, UI is one of the most effective tools that the government possesses to keep economic activity afloat during a recession – for every \$1 in UI, \$2 in economic activity is generated.^{xxv}

Certainly, our current recession would be much more severe without the additional \$600 per week in UI. Using what we have learned here, Congress should authorize that additional \$600 per week as an automatic stabilizer that kicks in when the economy is in recession. That additional \$600 can be deployed by low-wage workers to retrain or to try to find entry-level work in growing sectors of the economy where long-term wage prospects are increasing.

In addition, drawing from other recent Congressional COVID-19 legislation, the Families First Coronavirus Response Act, Congress should mandate that all employers of low-wage workers provide paid leave. This would permit employed low-wage workers to stay home when they or their loved ones are sick without risking losing their jobs or income.

Finally, Congress should pass legislation that lifts the pay of low-wage workers by \$5 an hour. Such an increase would not only decrease significant financial insecurity for millions of Americans, but it would also contribute to increases in consumer spending, generating greater economic activity.

It is also important to note here, that policies that promote payroll tax cuts will not flow to low-wage workers in any significant way and will therefore not be an effective way to raise wages.^{xxvi}

3. **Eliminating the existing health access disparities that are prevalent in low-income communities of color.** It has become abundantly clear that long-standing health disparities that plague communities of color are the result of the policy choices that the federal, state, and local governments have made. There are two key issues. One is the physical access to good healthcare and the other is access to culturally sensitive healthcare. Congress can create physical access goals for communities underserved by health professionals and can provide incentives to states and local governments to prioritize easily accessed healthcare centers.

Congress can also create requirements that enable states and local governments to tap additional incentives if some significant percentage of their medical professionals are certified as having completed training in the provision of care in a culturally sensitive manner.

V. How Do We Pay for These Policies?

It is important to recognize that the U.S. government will spend far more than the currently allotted \$3 trillion to resuscitate the economy. While that may seem problematic from a fiscal perspective, we do have the runway to spend our way out of this crisis. Not all debt is bad – good debt serves the national interest and it is in the national interest to restart the economy. In addition, the U.S. is fortunate in that it can borrow in its own currency and that low interest rates signal that our government bonds remain in demand.

Policy proposals that have the effect of lowering corporate tax rates, or increasing the compensation of private sector executives, have the effect of increasing inequality and therefore, cannot address the equity dimensions of this specific pandemic recession.

While I defer to Congress to decide how best it would finance the policies articulated above, my colleagues at the Brookings Institution have demonstrated how a value added tax (VAT) could work to finance broad-based expenditures that are focused on establishing equity and reducing inequality.^{xvii}

VI. Conclusion

Finally, I do want to end by emphasizing that we do not want to return to the financial insecurity for millions of working Americans and to the health and financial apartheid that characterized the pre-pandemic period. Instead, the U.S., one of the most entrepreneurial nations in the world, is well-positioned to learn from the pandemic and to harness the enormous human potential that lies in communities of American workers, and Brown and Black communities to drive a more equitable post-pandemic economy. This would ensure that all workers are included in the economic rebound and that the long arm of racism is amputated and in its place, adequate health care and the opportunity to transform aspirations into tangible income opportunities are made available.

Thank you.

ⁱ It is important to note that the CBO forecast in May of 2020 was prior to the resurgence of COVID-19 to unprecedented levels in 40 states.

ⁱⁱ <https://data.bls.gov/cgi-bin/surveymost>

ⁱⁱⁱ <https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/>

^{iv} <https://www.brookings.edu/blog/how-we-rise/2020/07/06/how-to-build-black-wealth/>

^v <https://catalog.data.gov/dataset/current-population-survey-annual-social-and-economic-supplement>

^{vi} <https://www.brookings.edu/blog/fixgov/2020/04/09/why-are-blacks-dying-at-higher-rates-from-covid-19/>

^{vii} <https://nypost.com/2020/04/07/anthony-fauci-compares-race-disparities-of-coronavirus-to-aids-epidemic/>

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- ^{viii} <https://www.ajmc.com/focus-of-the-week/study-reveals-declining-life-expectancy-among-white-americans-that-defies-easy-answers>
- ^{ix} <https://www.brookings.edu/policy2020/votervital/whose-wages-are-rising-and-why/>
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- ^{xi} <https://www.umass.edu/employmentequity/covid-19-recession-opportunity-reform-our-low-wage-economy>
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- ^{xiii} <https://www.kff.org/coronavirus-covid-19/issue-brief/eligibility-for-aca-health-coverage-following-job-loss/>
- ^{xiv} U.S. Census Bureau, Income and Poverty in the U.S., 2018
- ^{xv} <https://data.oecd.org/inequality/income-inequality.htm>
- ^{xvi} <https://www.nytimes.com/interactive/2020/07/05/us/coronavirus-latino-african-americans-cdc-data.html>
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- ^{xxi} <https://www.epi.org/blog/black-and-hispanic-workers-are-much-less-likely-to-be-able-to-work-from-home/>
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- ^{xxv} https://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf
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- ^{xxvii} https://www.hamiltonproject.org/papers/tackling_the_tax_code_efficient_and_equitable_ways_to_raise_revenue?_ga=2.248698439.17557824.1594412066-2055287654.1569346213

Testimony of

**Anne Simpson
Interim Managing Investment Director, Board Governance & Sustainability
California Public Employees' Retirement System**

Before the

**United States House of Representatives
Committee on Financial Services
Subcommittee on Investor Protection, Entrepreneurship and Capital Markets**

Hearing on

**“Promoting Economic Recovery: Examining Capital Markets and the Real Economy and
Strengthening Worker Protections in the COVID-19 Era”**

July 14, 2020

Chairman Sherman, Ranking Member Huizenga, and Members of the Subcommittee:

Thank you for the opportunity to testify at today's hearing. My name is Anne Simpson. I am the Interim Managing Investment Director for Board Governance & Sustainability at the California Public Employees' Retirement System ("CalPERS"). I am pleased to appear before you today on behalf of CalPERS. We applaud and support the Subcommittee's focus on building a sustainable and competitive economy and repairing the damage done by the COVID crisis.

In this testimony, I will provide an overview of CalPERS' investment principles, highlight our approach to human capital management, and offer some suggestions on how to move forward.

CalPERS

As the largest public defined benefit pension fund in the United States, we are fiduciaries managing nearly \$400 billion in global assets on behalf of more than 1.9 million public employees, retirees, and beneficiaries to support their retirement and health needs. Our responsibility to pay benefits decades into the future requires that we take a long-term, multi-generational view when assessing performance. We are not only long-term investors. CalPERS pays \$25 billion in retirement benefits each year to our retired members. Nearly 60 cents of every dollar paid in those benefits comes from investment returns. This means that our members depend upon safety and soundness in the capital markets for their retirement security.

As a pension fund, CalPERS' fiduciary duty is to its members: "we serve those who serve California." Our members include janitors, police, firefighters, school employees and health care workers who contribute to the fund during their working career. To meet our investment goals, CalPERS needs to earn 7 percent risk-adjusted returns across the portfolio over the long term. CalPERS is just 70 percent funded which means that meeting our return target is our highest priority.

To achieve those long-term returns, CalPERS is guided by its fiduciary duties of prudence, care and loyalty whilst minimizing costs to the employers. We ensure full compliance with all laws and regulations provided by government and regulators. Our Board has also adopted [Investment Beliefs](#), which recognize the importance of today's hearings for long-term fiduciaries.

Investment Belief number four states, “Long-term value creation requires effective management of three forms of capital: financial, physical and human.” Therefore, CalPERS engages companies and managers on their human capital practices, including fair labor practices, health and safety, responsible contracting and diversity.

Our Investment Beliefs are grounded in an extensive review of evidence during CalPERS’ Sustainable Investment Research Initiative. This evidence has since been strengthened by the work of Dr. Anthony Hesketh who presented to the CalPERS board yesterday in order to highlight the growing case for human capital disclosure by firms.¹

We have been engaged in a multi-year pursuit of human capital disclosures to improve transparency, consistency, assurance and timeliness in reporting. We have worked with the Human Capital Management Coalition (HCMC)² since its inception and also hosted the HCMC Co-Chair, Cambria Allen-Ratzlaff, during our Board’s July offsite meeting. CalPERS highlights enhancing human capital disclosures in its Total Fund Governance and Sustainability Strategic Plan.

I commend this Subcommittee for focusing on these critical matters during this COVID crisis, but we must acknowledge that there was much work to be done prior to the crisis. Current regulations require very little human capital reporting. The reports investors receive from public companies are largely voluntary and often do not cover issues of relevance to capital allocators.

Disclosure for Strengthening Capital Markets

Disclosure is an essential precondition for sound investment, effective and consistent corporate accountability, and sustainable economic growth. As the Securities and Exchange Commission (“SEC”) says on its website:

Only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions.

The result of this information flow is a far more active, efficient, and transparent capital market that facilitates the capital formation so important to our nation's economy.

We agree.

¹ Dr. Anthony Hesketh, [Intangible or Invisible? The growing case for human capital disclosure by firms](#) (July 13, 2020)

² Human Capital Management Coalition’s [Petition for Rulemaking](#) to the SEC (July 6, 2017)

The SEC Investor Advisory Committee (IAC) made recommendations on Human Capital Management Disclosure on March 28, 2019. I am a member of this body. The IAC's recommendations include expanding the current disclosure of the number of employees to break down such requirement into full-time, part-time, and contingent workers. In addition, the IAC recommends adding the following:

- the stability of the workforce, including voluntary and involuntary **turnover** and **internal hire** and **promotion** rates;
- the **safety** of the workforce, including frequency, severity and lost-time due to injuries, illnesses and fatalities, and percent of first-tier suppliers that were audited for safety and health compliance;
- average hours of **training** per employee per year,
- race/ethnicity and gender **diversity data**, and
- standardized survey measures of employee **satisfaction**.

Finally, the background section (of corporate reports) could also be augmented with a summary of material elements of material **company policies** and goals regarding career development, safety and health compliance, subcontracting and outsourcing.

In a joint public statement SEC Chair Clayton and Director, Division of Corporation Finance Hinman highlighted "The Importance of Disclosure – For Investors, Markets and Our Fight Against COVID-19." The two leaders stressed the following:

Company disclosures should ... respond to investor interest in: (1) where the company stands today, operationally and financially, (2) how the company's COVID-19 response, including its efforts to protect the health and well-being of its workforce and its customers, is progressing, and (3) how its operations and financial condition may change as all our efforts to fight COVID-19 progress. Historical information may be relatively less significant.

The leaders also add:

[W]e have also discussed the stark reality that virtually all participants in our highly integrated economy—including our workers, our retail investors and our small businesses—are facing profound economic challenges and personal uncertainties that are not of their own making and over which they have little control. Discussions of the scope and size of these millions of individual challenges inevitably lead to near unanimous agreement that the current strategy—combining dramatic health-focused mitigation efforts with massive monetary and fiscal intervention—must evolve over the longer-term.

However, the current corporate disclosure regime in the United States does not provide investors with the information they need to assess drivers of value and sources of risk. In part, this is because reporting has not kept pace with changes in the economy. In the SEC's Investor Advisory Committee recommendations data is cited to show that 85% of S&P 500 company balance sheets consist of intangible assets. However, much of this is a "black box" without sufficient disclosure.

We believe the current reporting regime requires improvement in terms of the scope of regulatory disclosures and should apply to all listed companies so that investors can assess risk and return across their portfolio. In the public markets, investors rely on standardized reporting, provided within a framework of board governance with internal controls, in the context of audited financial statements, and investor rights, such as the ability to exercise proxy votes, file proposals for shareholder votes and bring derivative lawsuits for fraud. CalPERS and other investors have asked Congress and the SEC to expand disclosures for investors in a number of issues relevant to risk and return, including human capital. Last year, CalPERS testified before this Subcommittee on the need for enhanced disclosure. We encourage you and the SEC to consider proposals to expand and improve information whilst protecting investor rights.

Investments During the COVID Crisis

CalPERS recognizes that more than 70 percent of capital is raised in the private markets. Accordingly, corporate growth is increasingly concentrated among private companies. As fiduciaries focused on maximizing investment returns for our beneficiaries, we are expanding our investments in private market opportunities as part of our plan to bring "more and better assets" into the portfolio, as set out by our Chief Investment Officer in his presentation to our Board's June meeting.

We appreciate the language included in the Financial Services and General Government Appropriations legislation that would stop the SEC from moving to finalize proposals that would impair the ability of investors like CalPERS to fulfill our fiduciary responsibilities. Absent meaningful vehicles for shareholder engagement, the alternative can be a call for divestment, which is not aligned with our fiduciary responsibilities highlighted above.

CalPERS supports efforts to expand disclosures to cover issues that we, as long-term investors, need to consider, including human capital management.

These are vitally important issues especially in light of the current pandemic. We appreciate being included in this discussion and stand ready to work with you to modernize corporate reporting in the United States so that it better serves the needs of investors and contributes to the strengthening of the capital markets on which so many rely.

Thank you, Chairman Sherman and Ranking Member Huizenga, for inviting me to participate in this hearing, and I look forward to your questions.

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Statement of William E. Spriggs

“Supporting the Economy by Supporting Workers”

Testimony prepared for

US House of Representatives Subcommittee on Investor Protection, Entrepreneurship, and
Capital Markets

116th Congress, Second Session

Hearing on

“Capital Markets and Emergency Lending in the COVID-19 Era”

July 14, 2020

Thank you, Chair Maxine Waters and Ranking Member Patrick McHenry, for this invitation to give testimony before your committee today on the issue of our nation’s unemployment crisis. I am happy to offer this testimony on behalf of the AFL-CIO, America’s house of labor, representing the working people of the United States; and based on my expertise as a professor in Howard University’s Department of Economics.

My testimony today will discuss the immediate challenge our nation faces from the collapse of personal consumption brought on by our record levels of unemployment. Despite slight improvements in May and June from the records reported in April, we remain in the worst crisis the American labor market has faced on record.¹ We face this dilemma, because the United States chose as its labor policy in response to the need to reduce human contact in fighting the Coronavirus to lay-off workers and use the unemployment system, rather than the policy most other industrialized nations pursued, which was to retain workers in place and subsidize employers’ that needed to shut down or reduce hours to be in compliance with social distancing.²

The Coronavirus is a highly contagious and deadly disease, and it is a global Pandemic.³ From February 2020 through the week ending July 12, the Center for Disease Control reported

¹ (Dunn, Haugen and Kang 2018)

² (International Labour Organization 2020) (Organization for Economic Cooperation and Development 2020)

³ (Cucinotta and Vanelli 2020)

over 119,000 deaths in the United States involving COVID-19.⁴ Given the huge numbers of Americans killed by the virus, extraordinary steps and policies are in order.

Many studies are emerging showing the huge benefits social distancing has made in containing the virus, limiting hospitalizations and deaths.⁵ And in an early attempt at the beginning of March estimated a value of \$8 trillion saved because of the projected lives saved through to October by practicing social distancing from March through May or June.⁶ These clear benefits mean we have large latitude in implementing economic policies to mitigate their costs, and still come out ahead as a society. And, we have the room to properly account for and address the racial and gender inequalities that are becoming apparent, and that will slow the recovery is not corrected.

My testimony will focus on the aspect of unemployment insurance, as one of those economic costs. I will show that the incidence of unemployment has not fallen evenly, and so while we all benefit because our social distancing measures significantly slowed the progress of the virus, the economic costs have not been shared evenly. The unique nature of the virus and the economic costs to fight the virus has twisted the labor market in many ways. Those workers who can tele-work, or those whose work allows for safe practice of social distancing face greatly reduced risks of catching the virus; while those workers who continue to work because their jobs are deemed too vital despite the risks to them of contracting the disease because they cannot tele-work, or their jobs must be done in close proximity to others and so cannot social distance at work, or those who must encounter the public, or give aid to the ill or those who are incarcerated or assist those in long term care bear the cost of risking illness. These too have built-in racial disparities policy makers should acknowledge and address. In a situation where these economic costs have been placed by policy, and not by market action, it becomes vital for policy makers to understand the consequences of their actions and to take responsibility for any resulting inequalities.

Further, the imbalances created by these policies alter relationships in the market place. Closing businesses that employ large numbers of people, and limiting economic activity, makes

⁴ (Centers for Disease Control and Prevention. National Center for Health Statistics 2020)

⁵ (Matrajt and Leung 2020) (Flaxman, et al. 2020) (Hsiang, et al. 2020)

⁶ (Greenstone and Nigam 2020)

clear losers, but opens many opportunities for those who are not limited. Having large numbers of workers unemployed with limited hiring prospects clearly shifts bargaining in favor of employers. And, primes the conditions to create monopsony power in most employers who are looking to hire workers.

Further, because working today exposes workers to the risk of catching COVID, in a normally functioning market, economists typically assume the labor market would compensate workers for the higher risk. The theory of compensating differential for doing riskier jobs is used to explain why coal miners or construction workers earn more than similar workers.⁷ But, in this case, workers do not have a full range of job opportunities and the market is not likely with such high unemployment to give them leverage to bargain for compensating differentials.

At the same time, the economy is facing the pressures of a “normal” recession. The loss of income and therefore demand from a large set of workers, extreme pressures on state and local budgets from increased costs to contain the virus and loss of revenue from lower economic activity threaten an additional drag on the economy when those public sector budgets are slashed to come into balance, policy uncertainty and economic uncertainty on the extent of damage the virus may inflict, a collapse in global trade, and a rise in the dollar are huge weights on the economy. Even high-income households that may have suffered less loss in income face the uncertainty caused by the disease on travel, school openings and child care, freezing demand for automobiles and home purchases. Recognizing who is losing income and how that can affect drops in consumption is important. Simply re-opening restaurants and bars, will not undo those factors. And, as we have seen, so many states are now seeing their cases of the virus spiking as they have tried to “re-open,” only adding to uncertainty and therefore exacerbating the problems the virus is causing the economy. Congress must keep in mind the need to keep up strong countercyclical programs to combat the “normal” recession part of the unemployment crisis.

To all these ends, Congress passed the CARES Act, March 27, that boosted the provisions of unemployment insurance. This was vital to addressing one dimension of fairness of closing down or curtailing some business activity to save the economy over \$8 trillion from lost lives. That huge benefit, allowed for a big down payment to cover the costs borne by those

⁷ (Purse 2004)

workers who would be displaced. At the time the social distancing policy was put in place, a little under 17 million American workers were employed in leisure and hospitality, the industry most affected by those policies and which includes food and drinking establishments, hotels and amusement parks. Yet, in 2018, a typical labor market, and the most recent data from the Bureau of Labor Statistics, shows only 7.8 percent of unemployed workers in the Leisure and Hospitality Industry received unemployment benefits.⁸ Further, the average weekly benefit for unemployment insurance in the U.S. compared to average weekly wages is a little less than 40 percent, so a typical unemployment check would leave workers far from whole.⁹ So, without great modification to normal state unemployment insurance laws, the largest bulk of workers asked to bear the costs of lower earnings would not have had access to any compensation, and the few who would get benefits would have been far from whole.

Two key modifications were made to address the shortcomings of regular state unemployment insurance systems. One was to create Pandemic Unemployment Assistance that would help workers whose work records might fall short of regular state requirements, including because of low earnings. The second was an attempt to raise the replacement value of a weekly unemployment benefit check to reach the average wage of workers. This was done crudely, by adding \$600 to each beneficiary, since that would be the case for the average benefit check and the worker earning the average weekly wage. And, that “short cut” was necessary because state unemployment insurance offices use antiquated computer systems that would make calculating replacement rates different from the benefits already built into their systems very difficult and time consuming to accomplish. This means that the replacement rate will be over 100 percent for those workers earning less than average, and lower for those higher earners.

Rather than push workers into unemployment, other industrialized nations chose to subsidize the wages of workers and keep them connected to their employers. Figure 1, drawn from comparative analysis done by the Organization for Economic Cooperation and Development (OECD), shows the stark differences between other countries and the United States in how this employment crisis was handled.¹⁰ Of course, they benefited from greater experience using these laws and a far greater reliance on sectoral bargaining that extends collective

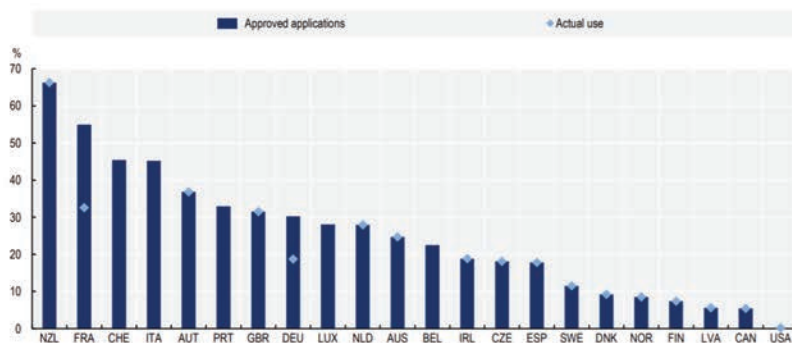
⁸ (U.S. Bureau of Labor Statistics 2019)

⁹ (U.S. Department of Labor. Employment & Training Administration 2019)

¹⁰ (Organization for Economic Cooperation and Development 2020)

bargaining standards nationally. Further, in most other countries, worker dismissals carry costs, and so unlike in the United States, policies to help with retention are received as very cost effective. New Zealand made greatest use of this type of program, covering about two-thirds of their workers, France over half their workforce were eligible, though only about a third actual were paid and Germany and Great Britain both covered about thirty percent of their workers. Through May, France, Italy and Germany remained with their unemployment rates in single digit levels.

Approved applications and actual participants in job retention schemes as a share of dependent employees



Note: Approved applications figures include workers who, ultimately, may end up working their normal hours. Data refer to end May except for Luxembourg and Switzerland (end April). United States: data refer to participation in short-time compensation schemes. Australia, Canada, Ireland, the Netherlands and New Zealand operate wage subsidy schemes, which are not conditional on the reduction in working hours. Take-up rates are calculated as a percentage of dependent employees in 2019 Q4.

Source: OECD Employment Outlook 2020 (Chapter 1), <https://doi.org/10.1787/1686c758-en>.

Figure 1

- Why continuing the \$600 Pandemic Unemployment Compensation is important

1. Maintaining aggregate demand

The huge drop in aggregate payroll that hit the U.S. economy in March and April was partially offset when Congress sought the highest replacement rate for this unprecedented fall. And, because the impetus came from containing the virus to order social distancing as a necessary policy choice, some policy certainty is needed by Americans about their future incomes. This is especially true as workers look at the worse labor market prospects ever recorded, despite a small recovery of some jobs in May.

Figure 2 shows the estimate from the Bureau of Economic Analysis of the loss in the personal income accounts from the drop in wages that took place in March. Ahead of Congressional action to fix problems that may have hampered workers in the leisure and hospitality industries from accessing unemployment insurance benefits, that industry lost over 700,000 jobs. Private sector wages fell in March at an annualized rate of \$332.2 billion. With only regular state unemployment insurance in place, and with record millions of people applying each week for benefits, unemployment insurance only made up \$43.5 billion of that loss.



Figure 2

But, in April, with Pandemic Unemployment Assistance in place in most states, the unemployment insurance system did a far greater job of replacing lost wages, though the drop in wages was much greater than in March. Figure 3 shows the greater level of mitigation for the loss of wages, and the economy was able to stabilize. This was a much bigger impact on the part of unemployment insurance than from September 2008 to October 2009 when private sector wages fell during the Great Recession. So, this was vital to the economy. The biggest part of the Pandemic Unemployment aid came from the boost of \$600 in the weekly unemployment checks of those who were able to get unemployment benefits. Because states were slow to implement the procedures for the Pandemic Unemployment Assistance and the Pandemic Emergency

Unemployment Compensation, large numbers of workers did not get access to those benefits. This means that millions of unemployed workers will not have received the full help that Congress intended. So, if the extra \$600 is cut off, many will have been left out. That will make the recovery uneven, and sputter as those communities left behind will face greater challenges.

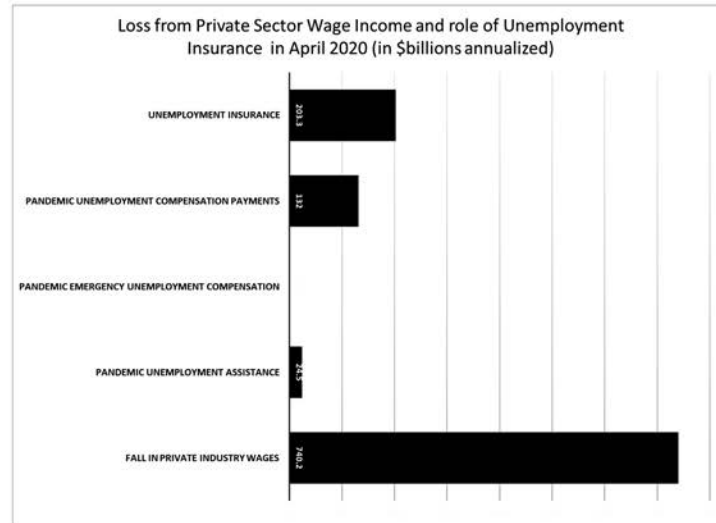


Figure 3

However imperfect the \$600 Pandemic Unemployment Compensation Payment may be, it must be viewed from its role as a macro-economic stabilizer.¹¹ And, in the context of the greatest recorded loss of jobs in American economic history, the policy response needs to be equally as large to offset such a dramatic income loss shock.

The drop in consumption that has taken place has been dramatic across a range of industries, not just those affected by social distancing. Figure 4 shows the decline in consumption for a broad range of products.¹² Average consumption levels for the months of 2019 are shown as

¹¹ (U.S. Bureau of Economic Analysis 2020)

¹² (U.S. Bureau of Economic Analysis 2020)

100, and the lines show consumption through May 2020. Consumption in many products has fallen below 50 percent of normal 2019 consumption. Consumption of new light trucks and domestic new automobiles are off more than 30 percent. Only food bought for home consumption has kept up with 2019 levels.

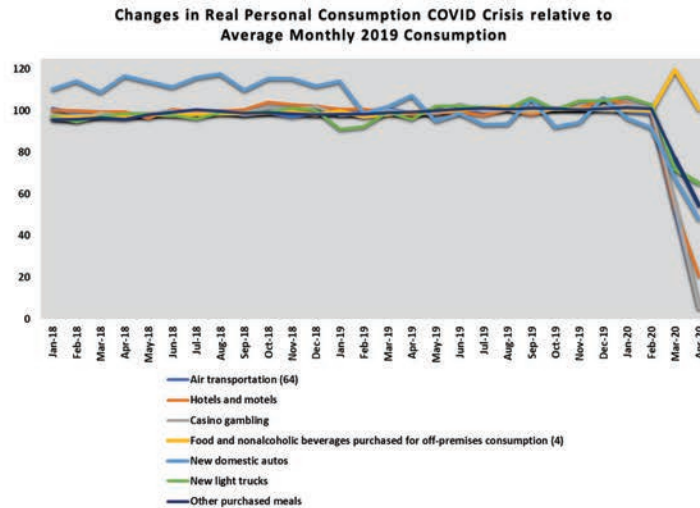


Figure 4

We do not have projections for unemployment levels through the end of the year from the Office of Management and Budget. But we do have estimates from the Congressional Budget Office that the average unemployment rate in the fourth quarter will be 10.5 percent.¹³

The pattern of lay offs is changing. In March, many workers reported their job loss as temporary. But this has now shifted toward larger shares of workers reporting their job loss as permanent separations from their employers as shown in Figure 5. The number of those on permanent layoff has now climbed to over 2.8 million.¹⁴ That shift reflects weakness in the labor market beyond the sectors directly affected by social distancing, like the jobs lost in mining and

¹³ (Congressional Budget Office 2020)

¹⁴ (U.S. Bureau of Labor Statistics 2020)

oil, and the downturn in durable goods manufacturing, like in motor vehicles and parts. Further, it is showing in the change in unemployment duration, doubling the share of unemployed workers unemployed 5 to 14 weeks from 31.5 percent in February to 65.2 percent in June.¹⁵

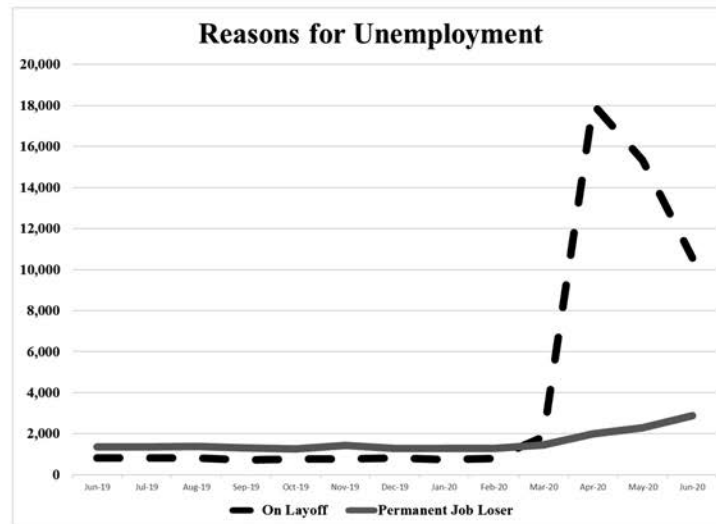


Figure 5

If workers do not receive certainty soon that the benefits will be extended, they are likely to dramatically cut back on consumption in July to try and build some liquidity against the dramatic fall in income ahead. This will shrink the economy and undo the good done by the Pandemic Unemployment relief in April.

2. Maintaining Equity

A consideration raised by several observers, is a concern about the workers earning below average wages, because they believe the replacement rate for them from receiving \$600 is too high. Of course, it is an odd concern to be worried that something helps those at the bottom too much, since normal equity issues are that income inequality in the United States has exploded

¹⁵ (U.S. Bureau of Labor Statistics 2020)

because too much of the gains in income have gone to the top. So, normally, in discussions of equity, the question is what policies can be put in place so that incomes at the bottom can rise relative to those at the top.

A more careful analysis however, would explain the additional equity concerns brought about by the unusual policy decisions that had to be made to insure the safety of the nation, which is saving the American economy \$8 trillion by saving lives. A reasonable attempt to differentiate those industries directly affected by social distancing orders, is that roughly 20 percent, or one-in-five workers were in those industries most highly affected. Workers in those industries tended to be younger, under age 25, and were more likely to be young women, and a higher share were Hispanic. These industries also tended to have a higher share of part-time workers, and single-parent households. The workers at greater risk of being in the affected industries were less likely to have a college degree. They were more likely to be in the bottom 60 percent of the family income distribution, living in families making less than \$75,000. For those families in the poorest 20 percent of American families, about 46 percent, almost one-in-two, of households depend on all family earned income coming from a job in one of the most affected industries. And, among those families with a little more income, in the lower-middle income fifth, a little more than one-in-four families depends on all earned income coming from a job in one of the most affected industries. So, these workers are vulnerable workers. While the unemployment rate for the overall economy is staggering, the unemployment rate in April for the workers in the most affected industries was a towering 34.1 percent, which is above the levels we believe were seen during the Great Depression. For Black, Hispanic and for women workers in these industries, their unemployment rates in April were roughly 38 percent.¹⁶

An analysis of job search choices by workers, and the effect of the high unemployment insurance replacement rate on accepting a job offer must also include the likelihood a worker has of landing a job. If the chances of finding a job are otherwise astronomical, the worse chances any American worker has seen, then modelling the effect of the replacement rate of insurance benefits rates has to be adjusted. Further, a refined model would have workers factor in the experience of the Great Recession, which was that if their unemployment spell lasts too long, they are very unlikely to land another job. Given that these workers are younger, the prospect of

¹⁶ (Dey, Loewenstein, et al. 2020)

waiting out the labor market and retiring is too remote. Further, as these workers are disproportionately from groups who routinely face discrimination, they are all too aware that a difficult labor market for other workers than for them it is going to be more arduous. Since June, the weekly flash surveys done by the U.S. Census Bureau have showed growing anxiety among Black, Latino and Asian Americans that they may lose their jobs in the coming month.¹⁷

So, a fair modelling of their situation would greatly discount the unemployment insurance replacement rate. Therefore, it was little surprise that in May, the labor force flow data revealed a dramatic reversal from the 17.5 million workers who went from employed in March to unemployed in April, to in May when 7.7 million workers went back from unemployed in April to being employed, followed by another 7.7 million unemployed workers shifting to employment from May to June.¹⁸ Most of the small advance in employment that took place was in the most affected industries; workers with low wages. Clearly, these workers understand the dire position they are in, and choose work over being cast into the worse labor market any American has seen.

From an equity perspective, the shutdown of their industries, is far more akin to what is observed during plant closings. The economic research is clear. Workers who experience plant closures suffer permanent income loss.¹⁹ It is unlikely that the almost 12 million workers who lost their jobs from February to April in the industries affected by social distancing policy will all find their way back to their previous employers. So large numbers of workers, who were already earning low wages, will likely suffer long scars from the choice to put them into unemployment rather than to support their wages and have them stay in place with their employer. A different way to look at their replacement rate, is to look at the loss to their permanent incomes they are likely to suffer and how much is being replaced by unemployment insurance. To build a robust recovery, it is necessary to build in that calculation because it will not be a quick return to work for these Americans.

Those who are worried about work disincentives should instead note that a disproportionate share of the workers who were negatively affected were women. And, if adequate funding does not flow to state and local governments very soon, there will be too much uncertainty around

¹⁷ (Contractor 2020)

¹⁸ (U.S. Bureau of Labor Statistics 2020)

¹⁹ (Couch and Placzek 2010)

school openings. The result will be, with insufficient support, women will find it difficult to handle schools being partially closed and getting to work. The HEROES Act, which the House of Representatives has passed, is a vital and necessary step to help workers return to the labor market. And, without it, the recovery will be complicated by further layoffs that will make it harder for some of these same workers to find jobs, as school cafeteria, school bus driver, teacher aide and school crossing guard jobs remain as part of the job losses experienced in April.

3. Racial equity

While Black workers were not as likely as Hispanic workers to be in the affected industries, those Black workers in the affected industries made Black family income as negatively affected as was the case for Hispanic families. So, while income losses were reported across all income ranges, because the losses were more severe among those families with incomes below \$75,000, a higher share of Black and Hispanic families suffered income drops. Figure 6 shows this disparate outcome.

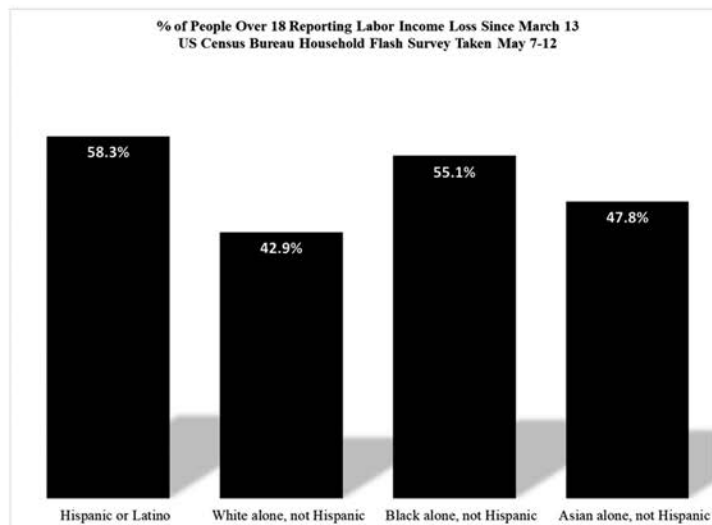


Figure 6

For Black families, the loss of income is compounded by the problem of living disproportionately in states that were the slowest to implement the Pandemic Unemployment Assistance benefits. In a normal economy, unemployed Black and Hispanic workers are less likely than White workers to receive unemployment benefits. Part of this is because of the higher share of Black workers who live in the South, and in those states with lower unemployment reciprocity rates.²⁰ For the week ending May 23, about 35 percent of those receiving any unemployment benefits were receiving benefits because of the Pandemic Unemployment insurance programs of the CARES Act. Yet, there were still 9 states that were reporting zero PUA claims; including Arkansas, Florida, Kentucky, Georgia and West Virginia.²¹ These failures among states with higher shares of Black workers, make the access to the program lower for Black families. Based on data from the Minneapolis Federal Reserve Bank's Opportunity & Inclusive Growth Institute's COVID survey,²² Black workers show a distinct disadvantage in getting unemployment insurance benefits during this unemployment crisis. Figures 7 and 8 show this is true, despite unemployed Black workers applying at similar rates. And, the persistent issue of difficulty for women to access unemployment benefits also shows.

²⁰ (U.S. Bureau of Labor Statistics 2019)

²¹ (U.S. Department of Labor. Employment & Training Administration 2020)

²² Author's calculations with Nyanna Browne, using (Wozniak, Willey, et al. 2020)

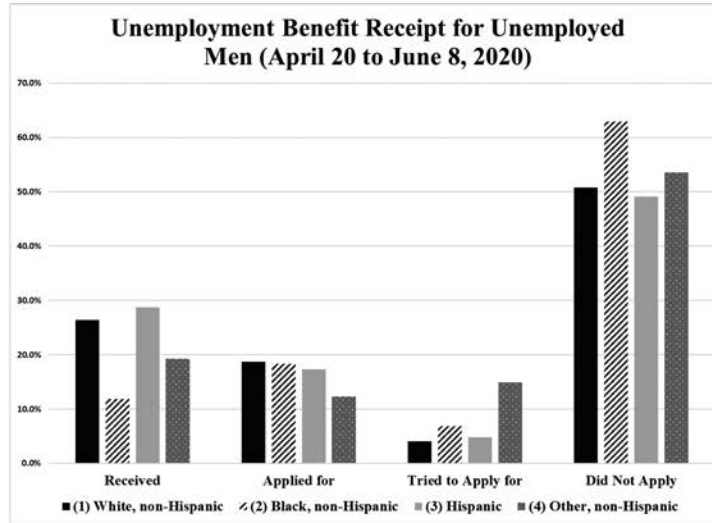


Figure 7

Similar to other research, the data show that workers' have had difficulty applying for the benefits, with a slightly higher share of difficulty for Black men, than others. This is also the case for women, shown in Figure 8. So, it is likely it will take some time for Black workers and women to get the benefits that Congress intended for unemployed workers to receive.

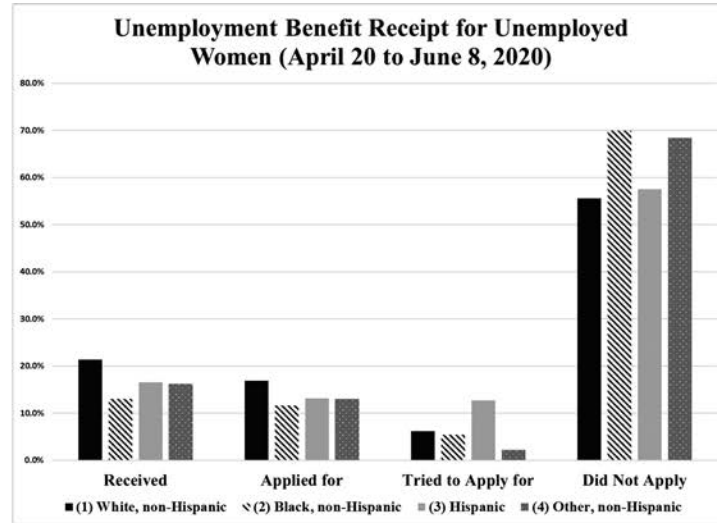


Figure 8

Withdrawing the additional \$600 will end up having a disparate impact on Black and on women because by July 31, a much smaller share of unemployed Black workers and women will have received any unemployment benefits.

Black and Hispanic workers combine to be about 30 percent of the American workforce. Their plight from the loss of income is compounded because of their low levels of wealth and specifically their low levels of liquid wealth (assets that can easily and quickly be turned into cash). A study of Black and Hispanic households has found that a drop in income from the loss of a job leads to a 50 percent larger drop in consumption for Black households, and a 20 percent larger drop in consumption for Hispanic households for each dollar of income lost compared to White households.²³ Because of the lack of liquidity for this large segment of the workforce, job losses get magnified in the economy through larger reductions in consumption. So, disparate job losses in these communities have outsized outcomes on the macro-economy because they are now 30 percent of American workers.

²³ (Ganong, et al. 2020)

Figure 9 is taken from a study using large data sets based on credit card expenditures, and shows the decline in expenditures in March for both high- and low-income families.²⁴ But, clearly, as the unemployment benefits begin to take effect over the month of April, low income families return to their previous level of consumption. This reflects that lower income household spending is already near a lower limit to cover basic household needs. Higher income households are still spending at lower rates because of uncertainty from the coronavirus effects on the society and planning.

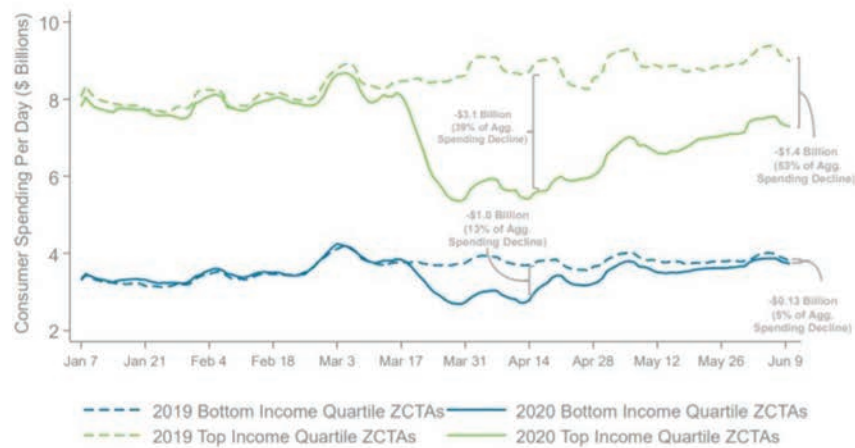


Figure 9

Further, as Black and Hispanic families face greater housing vulnerability, losses of incomes can add stress on rental markets as arrears in rents can mount. Unemployment insurance, and the generosity of the benefits do help alleviate pressures on foreclosures.²⁵ Data from the National Multifamily Housing Council shows that in April, the number of renters paying rent on time dipped to 78.0 percent, below last April's 82.9 percent. Following the unemployment assistance, on time rent payments bounced back so June's 80.9 percent on time payments were more similar

²⁴ (Chetty, et al. 2020)

²⁵ (Hsu, Matsa and Melzer 2018)

to last June's 81.6 percent rate. But, with uncertainty over the unemployment benefits looming, July on time rental payments dipped to a low of 77.4 percent.²⁶ A clear sign household are trying to marshal their resources as best they can, fearing a drop in income to come in August. And, for these two communities hit hard by foreclosures during the Great Recession this is important. We have no room for mounting bad debts in the banking sector, given issues of corporate and business debt already growing on the banks' books. Keeping the household sector as liquid as possible is the best way to avoid compounding what is, so far, a crisis in the real economy.

4. Exacerbating Labor Market Power Imbalances

There are two key issues at risk in thinking of the \$600 Pandemic Unemployment Compensation as a work deterrent beyond issues of equity. First, and primary, is a misguided belief that simply re-opening businesses will solve the current unemployment crisis. This is wrong because while about 12 million of the jobs lost from February to April likely trace to the closing businesses to achieve social distancing, that leaves more than 8 million jobs in other industries lost because our economy is super fragile because of its high level of inequality. As a result, aggregate demand collapses quickly. Some because of the wealth inequality, that makes the loss of jobs in the Black and Hispanic communities get magnified when they lose jobs. And, some because workers' wages have not been keeping up with productivity, and that gap always means that when the economy slows and workers cannot borrow, they cannot consume at a pace to keep aggregate demand high. The other 8 million jobs are roughly the size of the job loss from the Great Recession.

Simply re-opening restaurants and bars will not solve the underlying issue, which is finding an effective set of policies to contain and stop the virus from killing. Without an effective strategy to fight the virus, increasing the number of workers who cannot shelter in place puts them, and their families at risk. This is not trivial.

For Black and Hispanic households, COVID is a disease of working age people. It is the result of the over-representation of Black and Hispanic workers among those who cannot telework and who are over represented in front line jobs exposed to the virus. There is scant

²⁶ (National Multifamily Housing Council 2020)

evidence that shows disparities in pre-existing health conditions explains higher morbidity among Blacks in the United States.

The Center for Disease Control did a study of a convenience sample (choosing the first set of patients, rather than select them randomly) of 305 patients in 7 hospitals in metropolitan Atlanta and one community hospital in southern Georgia of patients over 18 with laboratory-confirmed cases of COVID-19, between March 1 and March 30 of this year. They found 83.2 percent of the patients were Black, though Black patients in the hospitals studied made up only 47 percent of all patients. And, they did find that 73.8 percent of the COVID positive cases did have conditions that are considered high risk for COVID patients. But, very importantly, they did not find significant differences between Black patients and others in incidences of diabetes, obesity, cardiovascular disease, or chronic lung diseases. Most importantly, the Black patients were not more likely to end up on invasive mechanical ventilation or to die. Blacks were over represented among the dead, because they were over represented among the COVID patients.²⁷

The Centers for Disease Control and Prevention also looked at health care professionals to understand the incidence of COVID among them. Looking at data from February 12 to April 9 of this year, for data where they could identify health care occupations and race of the patient, they found 21 percent of the cases were of Black health care professionals. That number is out of proportion to the Black presence in the general work force, but among health care workers, Blacks are close to 20 per cent.²⁸ So, Black health care workers are not more likely to catch the disease than non-Black health professionals, but the over representation of Blacks in this front line occupation means a higher share of all Black workers would show up with the disease.

Black workers are over-represented in a number of front-line occupations, including childcare and social services, health care, building and cleaning services, trucking, warehouse and postal services, public transit and grocery, convenience and drug stores. They work as essential workers, and in jobs that do not allow for tele-work. Hispanics are over represented among child care and social service workers, building and cleaning services, health care services and in grocery, convenience and drug stores.²⁹ Both are over represented among meat packing

²⁷ (Gold, et al. 2020)

²⁸ (Team 2020)

²⁹ (Rho, Brown and Fremstad 2020)

and animal slaughter.³⁰ Black and Hispanic workers are much less likely to have jobs where they can tele-work, and this disparity coupled with the occupations where they are over represented means a higher share are not sheltering in place and face exposure to the disease.³¹

The result is that when you look at the age distribution of hospitalizations for COVID-positive patients, the majority of Black and Hispanic patients are working age, while for whites, the majority (almost 65 percent) are over 65. Almost 47 percent of Hispanic patients are 18 to 49, and 55 percent of Black patients are 18 to 64. Figure 10 shows the age distributions by age and race.

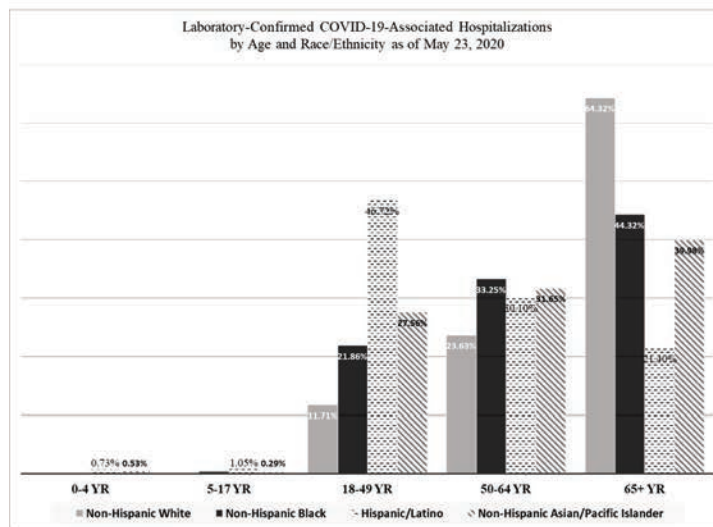


Figure 10

It is essential to understand the risk workers face, as stories continue to mount of problems in meat packing and elder care facilities. Returning to work to face risks, means workers should expect to receive some compensating differential for the risk. But that assumes the workers have the bargaining power and choices to freely choose to accept the risk. Efforts by state governments to force unemployed workers to take job offers tips the scale radically in favor

³⁰ (Fremstad, Rho and Brown 2020)

³¹ (Gould and Shierholz 2020) (Dey, Frazis, et al. 2020)

of companies that do not want to pay for the risks and wish merely to take advantage of high unemployment levels and the state government siding with the employer on how much bargaining power workers should have in this situation. Research has noted that workers constrained by discrimination in their job offers, are not able to command the same risk premia as other workers, Black males and immigrant workers exhibit lower risk premia in some studies.³² A recent survey done by the National Employment Law Project found high levels of retaliation and fears of retaliation from workers who felt unsafe at work. Their national survey reported 73 percent of Black workers went to work, though “they believed they were seriously risking their health,” compared with 49 percent of white workers. They found that roughly one in seven Black workers did not report their concerns to their employer out of fear of facing retaliation.³³

Workers already feel vulnerable in this labor market. Recent work shows a disturbing pattern of low wage workers, especially women, who report to work despite self-reporting a fever and other potential symptoms of the virus. This suggests workers are taking on great risks, just to stay employed.³⁴

The other imbalance is in a job market with low levels of job hiring, firms that are hiring are likely to wield monopsony power, as among only a few firms hiring. Lowering the bargaining power of workers, already low because of the record level unemployment rate could lead to scarring in the labor market. If expanding firms are monopsonies, the recovery will see slower than needed wage growth coming out of this downturn. A weakness of the labor market up to February had been sluggish wage growth despite low levels of unemployment. Increasingly, economists were concerned that monopsony power was growing among employers.³⁵

• Conclusions

Our economy faces two unemployment crises. One is because of our policy option to handle the necessary policy of social distancing through laying off workers and using our

³² (Viscusi 2003) (Hall and Greenman 2015)

³³ (Tung and Padin 2020)

³⁴ (Wozniak, Disparities and Mitigation Behavior during COVID-19 2020)

³⁵ (Azar, et al. 2019) (Mendez and Sepulveda 2019)

unemployment insurance system to handle idle workers, rather than to use wage subsidies to let them be idle while maintaining their relationship with their employer. This placed inordinate costs on those workers. And, policy uncertainty, along with delays that let the incomes collapse of these millions of low wage workers, also set in motion an aggregate demand collapse that was exacerbated by limits both from social distancing and an ennui that built from the policy uncertainty on the containment of the virus.

This means we will face record levels of unemployment for some time. It is necessary we use the huge \$8 trillion in savings accumulated through saving lives by using social distancing to provide the economic underpinnings to gain the confidence of Americans on the virus fighting front. If it becomes necessary to re-institute social distancing to regain control of the virus, we must have the confidence of the American people that this will not cause a repeat of the economic pain they have already endured. We should not be fooled into thinking that simply re-opening restaurants and bars will answer the challenges of a collapse in global markets, shrinking export market opportunities and a strong dollar, global over capacity in autos, and coming crisis with state and local government finance that all point to huge headwinds for the Fall.

The House of Representatives already acted swiftly to pass the HEROES Act. But, it needs to pass the Senate, too. Well before July comes, workers need to know how they will handle their bills in August. And, we will not be able to get labor force participation up without funding to state and local governments in hand to settle issues of school openings for the Fall. Waiting until July will damage an already fragile economy. Maintaining sufficient aggregate demand must be a priority for a healthy recovery.

Worker safety must be a higher priority. Workers will not send their families off to shop if workers do not feel safe at work. There is no choice of “stop the virus,” or grow the economy, this is time we must be concentrating on safety so the uncertainty can fall and people feel they can plan.

Workers must have confidence, that having been asked to walk away from their jobs, there is a solid plan for a just transition for them, including income support to land safely. People are counting on Congress to not repeat previous crises, when large sums of money were given to save the economies, but racial and gender equity concerns were ignored. And, people are

counting on Congress that there will not be a repeat of bail outs for the rich that go unquestioned, and unaccounted for, and griping being reserved for workers who are struggling.

While the benefits to health of social distancing are clear, Congress should still be concerned about the cost effectiveness of measures it takes. Transparency in the programs is very important. The key objectives must be to control the virus, and keep aggregate demand as stable as possible so the household sector can gain the confidence to resume spending. In this regard, Congress should do all it can to ensure that companies receiving support are spending that support to keep payrolls up and workers safe on the job. Congress wants to make sure the money is going to support the “real economy” where goods and services are produced, and not the financial sector. That means avoiding funds going to prop up financial activities, since these will not support the immediate needs of the economy. Firms spending funds on stock buy backs or extravagant corporate executive bonuses or dividends, diverts funds needed to insure safe workplaces. Those activities will not boost the economy. Further firms need to be encouraged to boost pay of their front-line workers, who now face great risks, and to insure there are paid sick days and leave to empower workers to stay home if they are sick. Companies that do not ensure that workers do not spread the virus at work are hurting themselves, when their operations are disrupted when workers become ill; but, also risking the safety of the community at large in continuing the spread of the virus away from the workplace when their workers go home to their families. It would be harmful for Congress to ignore firms that want to act irresponsibly.

None of this will happen by wishing this would all go away. We must plan to get out of this.

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102 Groups Support Disclosure of Tax Havens and Offshoring Act (H.R. 5933)

July 13, 2020

RE: Disclosure of Tax Havens and Offshoring Act (H.R. 5933)

Dear Chairwoman Waters and Ranking Member McHenry,

We, the undersigned organizations, strongly urge you to advance the Disclosure of Tax Havens and Offshoring Act (H.R. 5933), which would require large, publicly-traded corporations to disclose key financial information (e.g. profits, revenues, taxes, number of employees, etc.) on a country-by-country basis to better inform taxpayers, investors, policymakers, academics, and other stakeholders and ensure that we emerge from the COVID-19 pandemic on the path to a sustainable and equitable economy.

The ongoing COVID-19 pandemic has shattered the political and economic paradigms that have dominated the global debate for the past forty years; it has laid bare the ramifications of the wealth drain posed by a global race to the bottom on taxes, which have hollowed out our public health and social services and given rise to levels of economic inequality not seen since the gilded age. It has similarly exposed the national security threats posed by a tax code that encourages the outsourcing of jobs to lower wage jurisdictions.

Even before this crisis, copious studies found that large, multinational corporations in the United States and elsewhere use provisions in the tax code to shift profits and avoid paying taxes that they would otherwise be required to pay. Analysis from the Institute on Taxation and Economic Policy revealed that 91 profitable Fortune 500 companies paid no federal income taxes in the U.S. in 2018 while another 56 such companies paid between 0 and 5 percent.¹ The Tax Justice Network estimates that tax avoidance results in a loss of \$500 billion for taxpayers globally each year—and the country facing the largest revenue loss is the United States. The Organization for Economic Cooperation and Development (OECD) estimates the annual losses globally to be in the hundreds of billions of dollars.²

This tax haven abuse will make it much harder for federal and state agencies to help their constituents overcome the COVID-19 pandemic. Such enormous revenue drain increases the pressure on lawmakers to heed the call to cut public services that are vital to a functioning economy and the COVID-19 response or unfairly shift the tax burden to other taxpayers, such as those who are less able to pay (including those suffering most from the pandemic). Either option leads to

¹ Matthew Gardner, Lorena Roque, Steve Wamhoff, "Corporate Tax Avoidance in the First Year of the Trump Tax Law", *Institute on Taxation and Economic Policy*, December 16, 2019; <https://itep.org/corporate-tax-avoidance-in-the-first-year-of-the-trump-tax-law/>.

² Alex Cobham, "Estimating tax avoidance: New findings, new questions," *Tax Justice Network*, March 22, 2017, <https://www.taxjustice.net/2017/03/22/estimating-tax-avoidance-questions/>.

regressive fiscal regimes which exacerbate economic inequality and undermine the COVID-19 recovery effort.

Over the past few decades, lost revenues in the U.S. have led to (sometimes draconian) austerity measures. Policymakers have cut back on vital services, underfunding healthcare, education, investments in infrastructure that would spark additional economic activity, and more. After years of funding cuts, food assistance for low-income families now averages less than \$1.50 per person per meal.³ Decades of budget cuts have similarly hollowed out the world's premier public health agency — the U.S. Center for Disease Control and Prevention — culminating in the COVID-19 testing catastrophe.⁴

The Disclosure of Tax Havens and Offshoring Act (H.R. 5933) is the first step in reversing the wealth drain from multinational tax avoidance. The legislation would improve the COVID-19 response by yielding important data to address potential profit shifting and outsourcing by requiring multinational companies to release basic financial information publicly. This is information they already provide to the Internal Revenue Service (IRS) under an OECD agreement, meaning there is no additional cost or burden on these companies in public reporting.

Increasing tax transparency through public disclosure will force large corporations to clean up the most questionable tax practices — boosting revenues to combat the economic and health ramifications of the virus. We have already seen this in the European Union, which recently required large banks operating in member states to publicly report certain profit and tax information on a country-by-country level. After accounting for all other factors, transparency alone pushed these financial institutions to move away from their most aggressive tax avoidance schemes — resulting in a rise in their effective tax rates, according to an academic review.⁵

At the same time, public disclosure will give policymakers, academics, investors, and others a better understanding of how tax policies impact differing constituencies — information we do not have under the current system of private reporting and information that is essential to ensuring the enactment of an informed fiscal plan for a successful COVID-19 recovery.

Multinational corporations have relied on the secrecy in the financial system to shift the tax burden to the rest of us over the past several decades. Presently, it can be difficult to even engage in an informed discussion. The little information to which we do have access suggests that there is an enormous problem. Aggregate data at the U.S. Internal Revenue Service from the initial reports filed by corporations under the OECD's current country-by-country reporting framework show that, in 2017, more profits were booked in known tax haven countries (including the Cayman Islands, Bermuda, and Singapore) by U.S. multinationals than in China, Canada, and Mexico — the three largest U.S. trading partners.⁶ Following the passage of the 2017 Tax Cuts and Jobs Act, Professor

³ "Chartbook: SNAP Helps Struggling Families Put Food on the Table," Center for Budget and Policy Priorities, November 7, 2019, <https://www.cbpp.org/research/food-assistance/chart-book-snap-helps-struggling-families-put-food-on-the-table>.

⁴ Kiran Stacey and Hannah Kuchler, "US health body's reputation takes a knock over coronavirus," *Financial Times*, March 12, 2020, <https://www.ft.com/content/928219ca-63c6-11ea-b3f3-fe4680ea68b5>.

⁵ Overesch, Michael and Wolff, Hubertus, Financial Transparency to the Rescue: Effects of Country-by-Country Reporting in the EU Banking Sector on Tax Avoidance (February 8, 2019). Available at SSRN: <https://ssrn.com/abstract=3075784> or <http://dx.doi.org/10.2139/ssrn.3075784>.

⁶ Internal Revenue Service, "Table 1A: Country-by-Country Report (Form 8975): Tax Jurisdiction Information (Schedule A: Part I) by Major Geographic Region and Selected Tax Jurisdiction, Tax Year 2017", <https://www.irs.gov/pub/irs-soi/17it01acbc.xlsx>.

Kimberly Clausing of Reed College estimated that U.S. multinationals would continue to shift \$300 billion in profits offshore each year to avoid taxes.⁷

Digging ourselves out of this crisis will require reversing the global wealth drain caused by tax avoidance and outsourcing. That process begins by shining a light on those abuses through enactment of the Disclosure of Tax Havens and Offshoring Act (H.R. 5933).

We thank you for taking our views into account. If you have questions, please feel free to contact Erica Hanichak at ehanichak@thefactcoalition.org.

Sincerely,

Academics Stand Against Poverty
 Accountability Lab
 Advocacy for Principled Action in Government
 AFL-CIO
 Africa Faith & Justice Network
 AfricaFocus Bulletin
 American Family Voices
 Americans for Democratic Action
 Americans for Financial Reform
 Americans for Tax Fairness
 Asia Initiatives
 Campaign for America's Future
 Center for American Progress
 Center for International Policy
 Center for Popular Democracy
 Citizens for Responsibility and Ethics in Washington (CREW)
 Coalition on Human Needs
 Communications Workers of America (CWA)
 Color of Change
 Congregation of Our Lady of Charity of the Good Shepherd, U.S. Provinces
 Consumer Action

⁷ Clausing, Kimberly A., Profit Shifting Before and After the Tax Cuts and Jobs Act (January 20, 2020). Available at SSRN: <https://ssrn.com/abstract=3274827> or <http://dx.doi.org/10.2139/ssrn.3274827>.

Consumer Federation of America
 Corporate Accountability Lab
 Crude Accountability
 Demand Progress
 Democrats.com
 EarthRights International
 Economic Policy Institute
 ESG Transparency Initiative
 Fair Share
 Faith Action Network - Washington State
 Financial Accountability and Corporate Transparency (FACT) Coalition
 Financial Transparency Coalition
 Foundation Earth
 Friends of the Earth U.S.
 Gender Action
 Global Alliance for Tax Justice
 Global Financial Integrity
 Global Justice Program
 Government Accountability Project
 Greenpeace USA
 Healthcare for America Now (HCAN)
 Heartland Initiative
 Institute for Policy Studies - Program on Inequality
 Institute on Taxation and Economic Policy (ITEP)
 Interfaith Center on Corporate Responsibility
 International Association of Machinists and Aerospace Workers
 International Brotherhood of Teamsters
 International Campaign for Responsible Technology
 International Corporate Accountability Roundtable
 International Federation of Professional and Technical Engineers
 International Labor Rights Forum
 International Rights Advocates

Jubilee USA Network
 Liberty Shared
 Mining Watch Canada
 MomsRising
 National Advocacy Center of the Sisters of the Good Shepherd
 National Education Association (NEA)
 National Employment Law Project
 National Organization for Women
 National Women's Law Center
 NETWORK Lobby for Catholic Social Justice
 New Rules for Global Finance
 Open Contracting Partnership
 Open the Government
 Our Revolution
 Oxfam America
 Patriotic Millionaires
 Pax Advisory
 Peace Education Center
 Polygon Education Fund
 Progressive Change Institute
 Project Blueprint
 Project Expedite Justice
 Public Citizen
 Publish What You Pay - US
 Revolving Door Project
 Rights CoLab
 Rights and Accountability in Development (RAID)
 RootsAction.org
 Service Employees International Union (SEIU)
 Shadow World Investigations
 Sisters of St. Francis Philadelphia
 South Carolina Small Business Chamber of Commerce

Strong Economy for All Coalition
 Sustentia
 Take on Wall Street
 Tax Justice Network
 Tax Justice Network Africa
 Tax Justice Network USA
 Tax March
 The Arc of the United States
 The Shareholder Commons
 The Society of African Missions, Inc.
 Union Veterans Council, AFL-CIO
 United Auto Workers (UAW)
 United Cerebral Palsy National
 United Church of Christ, Justice and Witness Ministries
 United Steelworkers (USW)
 U.S. PIRG
 Working America

July 14, 2020

The Honorable Maxine Waters
Chairwoman
U.S. House Committee on Financial Services
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
U.S. House Committee on Financial Services
Washington, D.C. 20515

RE: Disclosure of Tax Havens and Offshoring Act (H.R. 5933)

Dear Chairwoman Waters and Ranking Member McHenry,

As investors that collectively manage assets in excess of \$811 million, we write to urge you to support the Disclosure of Tax Havens and Offshoring Act (H.R. 5933). The legislation would require much-needed disclosures of material information to better allow investors to gauge risks and assess value, strengthen the current state of opaque tax reporting by corporations, and meet emerging global country-by-country reporting standards.

Investors require income and tax information at the country-by-country level to better understand a company's financial, reputational, and economic risks to make informed investment decisions.

Given the global movement around tax transparency—with 80 percent of companies surveyed by Deloitte expecting public country-by-country reporting to be adopted in the next few years—we support legislation to conform US disclosure requirements to meet emerging uniform global standards for those who invest in US companies.

Investors can face material financial risk from multinational corporations at odds with tax authorities. Government tax authorities are increasingly cracking down on aggressive tax planning used by companies to minimize their tax liabilities, achieve hidden competitive advantages, and generate artificial profits through tax refunds and other tax benefits. For example, Apple was ordered by the European Union to repay Ireland \$15.4 billion in back taxes in 2016, and Facebook is facing an Internal Revenue Service (IRS) lawsuit over \$9 billion in unpaid taxes. When governments take action against companies utilizing high-risk corporate tax practices, the financial consequences for companies and investors can be severe.

Globally, there is both growing support among investors and emerging standards for disaggregated corporate tax disclosures on a country-by-country basis, including from the United Nations Principles for Responsible Investment (UNPRI), the Chartered Financial Analyst Institute, and the Global Reporting Initiative (GRI).

- The UNPRI, a network representing investors with more than US\$100 trillion in assets under management, has urged companies to publish tax information on a country-by-country basis and to become more transparent on their overall approach to tax policy and how their tax policy interacts with their broader business and sustainability strategies.
- The Chartered Financial Analyst (CFA) Institute, with 137,000 members in 150 countries, highlighted the importance of tax disclosures as a vital source of information for investors in comments to the Financial Standards Accounting Board.
- And the Global Reporting Initiative (GRI), an international standard-setting body whose reporting guidelines are followed by more than three-quarters of the companies listed on the Dow Jones Industrial Average, recently launched its new tax transparency reporting standard that include public country-by-country reporting. This standard was widely supported by investors. The GRI standard is similar to the provisions in the Disclosure of Tax Havens and Offshoring Act, and we note many companies are moving to adopt the standard, which becomes effective in January 2021.

At the same time, the member nations of the G20/OECD Inclusive Framework have already agreed to require the largest multinational companies to report the same financial information at a country-by-country level to tax authorities. While that should be helpful for tax authorities to catch tax evasion, it is of little use to investors who cannot see this information.

To that end, H.R. 5933 would require multinational corporations to publicly release basic revenue and tax information that they are already required to collect and privately report to the IRS under an earlier multilateral agreement. By utilizing an existing framework, the bill minimizes any costs or other burdens on the multinational businesses.

Disclosure would level the playing field for investors. Currently, companies themselves have access to revenue, profit, tax and other information on a country-by-country level. And through the OECD's Base Erosion and Profit Shifting initiative to require country-by-country reporting for multinational companies, tax authorities now have this information as well. The group that still does not have access to full tax disclosures are the investors that are putting their funds at risk.

Therefore, we urge you to remedy the situation by supporting the Disclosure of Tax Havens and Offshoring Act and encourage you to move the bill through the House Committee on Financial Services quickly.

We thank you for your consideration of our views. If you have questions, please feel free to contact John Keenan (jkeenana@afscme.org) at AFSCME.

ACTIAM
 AFL-CIO
 Æquo, Shareholder Engagement Services
 American Federation of State, County and Municipal Employees (AFSCME)
 Bâtirente
 Boston Common Asset Management
 Canadian Labour Congress - Employee Pension Plan
 Church Commissioners for England
 Clean Yield Asset Management
 Communications Workers of America (CWA)
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 Franciscan Sisters of Perpetual Adoration
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 Maryknoll Fathers and Brothers
 Maryknoll Sisters
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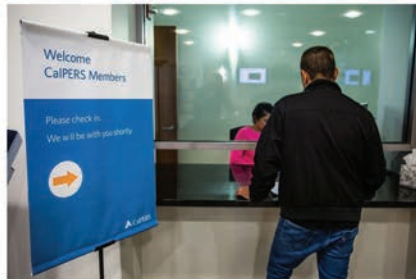
OPINION | COMMENTARY

Calpers Prepares for the Long Haul

By investing in private equity and credit, we expect to be able to achieve 7% returns.

By Ben Meng

June 14, 2020 3:47 pm ET



A former state employee seeks retirement advice at California Public Employees' Retirement System headquarters in Sacramento, Calif., Feb. 14, 2017.

PHOTO: MAX WHITTAKER/REUTERS

Market turmoil has thrown a spotlight on the challenges that public pension funds face in delivering retirement security to public employees. The debate about how to meet obligations is important for policy makers, who worry that securing the benefits pensioners depend on will burden state and local governments—and future generations.

As the largest defined-benefit public pension fund in the U.S., the California Public Employees' Retirement System has been anticipating these questions. We're now ready to announce our strategy for dealing with them.

Over the past year, we have reviewed our investment approaches. We improved our liquidity position and redeployed \$64 billion to reduce active risks in public

markets. These decisions, along with asset allocation changes over the past couple of years, helped Calpers reduce by about \$11 billion the impacts of the market downturn caused by Covid-19. We also scaled back our use of external asset managers, saving \$115 million in fees annually.

Yet even before the pandemic, we knew that our goal of achieving a risk-adjusted return of 7% would require addressing the market's triple threat of low interest rates, high asset valuation and low economic growth. In late 2019 we mapped out an investment strategy to deliver sustainable results.

The solution is based on "better assets" and "more assets" and will capitalize on Calpers's advantages: a long-term investment horizon and access to private asset classes.

Calpers must diversify and increase exposure to private assets, such as private equity and private credit. We refer to these as "better assets" because they have the potential for higher returns and lower expected volatility when compared with publicly traded assets.

"More assets" refers to a plan to use leverage, or borrowing, to increase the base of the assets generating returns in the portfolio. Leverage allows Calpers to take advantage of low interest rates by borrowing and using those funds to acquire assets with potentially higher returns.

This approach is not without risk. Private debt can reduce liquidity. Leverage can exacerbate some short-term volatility. But prudent use of leverage can reduce risk over time by allowing Calpers to keep more exposure in diversifying assets such as Treasury bonds, while pursuing higher returns in other parts of the portfolio.

We have factored in these realities carefully and have implemented a comprehensive, forward-looking plan for mitigating risk. Over the past several months, we have meticulously planned a measured shift toward this strategy, improving liquidity management, installing proper controls and a centralized management framework.

There is no panacea in the current market. Yet we think this new strategy will increase the probability of achieving a risk-adjusted return of 7% within the next

10 years. This will require sticking to the path regardless of short-term outcomes.

This is only the beginning. Calpers is positioning itself to deliver sustainable returns to our two million members for decades to come.

Mr. Meng is chief investment officer of Calpers.

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