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THE 2020 JOINT ECONOMIC REPORT

R E P O R T

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

2020 ECONOMIC REPORT OF
THE PRESIDENT

DECEMBER 17, 2020.—Ordered to be printed

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U.S. GOVERNMENT PUBLISHING OFFICE
WASHINGTON: 2020

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LETTER OF TRANSMITTAL

December 17, 2020

HON. MITCH MCCONNELL
Majority Leader, U.S. Senate
Washington, DC

DEAR MR. LEADER:

Pursuant to the requirements of the *Employment Act of 1946*, as amended, I hereby transmit the 2020 Joint Economic Report. The analyses and conclusions of this Report are to assist the several Committees of the Congress and its Members as they deal with economic issues and legislation pertaining thereto.

Sincerely,

Mike Lee
Chairman

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DECEMBER 17, 2020 – Ordered to be printed

MR. LEE, from the Joint Economic Committee,
submitted the following

R E P O R T

Report of the Joint Economic Committee on the 2020 Economic Report of the President

CHAIRMAN'S VIEWS

At the turn of the decade, the United States enjoyed a strong economy with broadly shared prosperity. The unemployment rate was near half-century lows, and this tight labor market allowed workers of all income groups to command higher wages as employers competed for their talents. This wage growth combined with reduced tax burdens to create all-time highs in disposable personal income. The *Economic Report of the President,* published in February of 2020, addresses this prosperous and optimistic time. The Joint Economic Committee's response, the

2020 Joint Economic Report, addresses the successes of that era as well.

However, the Committee's report will also discuss two important subjects beyond the excellent headline economic performance of 2019. The first of these subjects is the state of the economy under the COVID-19 pandemic, which arrived on American shores after the *Economic Report of the President* was published. The virus, and the prevention measures required to keep it at bay, have put stress on the physical, social, and financial health of American families. Success in the year to come will be measured by how well we mitigate that stress, defeat the virus, and ultimately return to the strong economy that the year began with.

The second of these subjects is longer-term trends in American life that are not as well captured by headline economic numbers. Despite the strong economic performance of 2019 and early 2020, there were persistent long-run economic and social challenges to be addressed. For example, over the very long run, a rising percentage of prime-age men in the United States have become disconnected from the labor force and the economic, social, and psychological benefits of working. We have witnessed a growing number of deaths attributable to drug use. And even for Americans who are employed and healthy, some of the basic expenses of family life such as education, housing, and healthcare have risen substantially in price. Success in the longer run will be measured by how well we meet these challenges.

These two subjects help us outline our two mandates for the near future. The first mandate is to mitigate or eliminate the pandemic's threats to public health, its cost in jobs, and its wider toll on associational life. Though personal income has been sustained and individuals remain optimistic in the face of adversity, there remains much work to be done. Many Americans have lost jobs, and the economic and social stability that those jobs bring.

Furthermore, associational life and charitable giving are under threat at a time when they are most needed. The *Joint Economic Report* will outline some potential solutions.

Our second mandate is to continue to address longer-run difficulties in American economic, family, and associational life. Many challenges pre-date COVID-19, and many challenges will remain long after the virus is mitigated or cured. For almost four years, my staff at the Joint Economic Committee have researched those longer-run challenges, with a special focus on the stories not told by economic headline numbers. The report will consider subjects such as the causes of drug-related deaths, the pressures on family stability, and the expenses that make it hard to afford to raise a family, and attempt to outline solutions to these issues as well.

A return to the headline economic conditions of the beginning of the year is a necessary condition, but not a sufficient one, for human flourishing in the United States. There are many kinds of prosperity that cannot be denominated in dollars, and they are often more profound and meaningful than the purchase of goods and services. We must fight for these kinds of prosperity as well.

CHAPTER 1: CONNECTING MORE AMERICANS TO WORK

OVERVIEW

Pre-pandemic, the economic expansion and its associated payroll growth were the longest recorded in U.S. history. Before March 2020, the U.S. unemployment rate had remained at or below 4 percent for nearly two years. During that period, average wage growth remained strongest for lower income workers. Those gains were shared broadly, as the *Economic Report of the President* (ERP, or *Report*) highlights: "Economic data show that recent labor market gains disproportionately benefit Americans who were previously left behind."[1]

African-American and Hispanic unemployment rates reached all-time lows, and female labor force participation was approaching an all-time high. Recent data released by the U.S. Census Bureau shows that median household income rose to a record high overall, and notwithstanding survey design and questionnaire changes over the years, household income rose across all races.[2]

In June 2020, the National Bureau of Economic Research defined February 2020 as the beginning of the pandemic-induced recession.[3] Given that this is a response to the ERP, much of the content in this chapter will largely refer to a timeframe that preceded the pandemic, while recognizing that we have much left to learn about the effects the pandemic will leave behind on our health and economy.

THE LABOR MARKET ENTERED 2020 STRONG

In chapter 2 of the ERP, the Council of Economic Advisors (CEA) discussed how the strength of the 2019 labor market improved opportunities for Americans that are more likely to face barriers to work:

> *…a strong market for jobs creates work opportunities for those with less education or training, prior criminal convictions, or a disability. This movement from the sidelines into the labor market also pulls people out of poverty and off of means-tested welfare programs, increasing their self-reliance through economic activity while decreasing their reliance on government programs that incentivize people to limit their hours or stop working to qualify.*[4]

The ERP lauded the fact that the 2019 U.S. labor market was "the strongest it has been in the last half century."[5] Not only was the labor market strong across a number of indicators, there was no reason to expect that strength to falter prior to the pandemic.

Unemployment Rate

Not only did the unemployment rate fall to a 50-year low of 3.5 percent during 2019, but the ERP documents that series lows were achieved in several demographic groups. By race or ethnicity, Asian (2.1 percent), African American (5.4 percent) and Hispanic (3.9 percent) groups saw record low unemployment rates in June, August and September of 2019, respectively. Additionally, by educational attainment, those with less than a high school diploma saw a record low unemployment rate of 4.8 percent in September 2019.[6] Other demographic groups were within half a percentage point of series lows not seen since the early 2000s, including the remaining demographic groups by education—high school

graduates, those with some college experience, and those with a bachelor's degree or more.

The unemployment rate was 3.5 percent in February 2020, again matching the 50-year low before rising precipitously to a post-WWII high of 14.7 percent in April 2020 and falling again by half to 7.9 percent in September 2020. It remains to be seen how long it will take to see the negative labor market effects of the pandemic subside.

Nonetheless, there is some good news for teenagers near graduation or recently graduated, relative to other worker age groups: after spiking to nearly a third unemployed in April, the unemployment rate for 16- to 19- year olds fell to 16.1 percent in August, which as the *Wall Street Journal* notes, is just under the long-run average going back to 1948. And while employment and average hours worked among this age group is still below the pre-pandemic level, recent analyses suggest that the level of entry-level job openings is above its pre-pandemic level and wages for teens "appear to be maintaining their pre-pandemic upward trend."[7]

Job Creation

Since the end of the Great Recession, the economy consistently added jobs for 113 consecutive months through February 2020. The 178,000 average nonfarm payroll jobs added each month in 2019 were lower than the 193,000 average added monthly in 2018, but still marginally higher than the average in 2017. The pace of growth nonetheless exceeded previous forecasts from the Congressional Budget Office (CBO), which estimated in August 2019 that average monthly nonfarm payroll growth for 2019 would be 148,000.[8]

As of July, the CBO expected an average monthly decline of 1 million net nonfarm payroll jobs in 2020 followed by a rebound of job growth in 2021 averaging 490,000 per month over the year. However, while the number of jobs lost between February and April 2020 virtually erased the last decade of job gains, more than half of jobs had been recovered by September 2020. As with the unemployment rate and other labor market indicators, it remains to be seen how fast a full recovery will occur.

Labor Force Growth

While the overall labor force participation rate was relatively flat in 2019, ranging from 62.8 percent to 63.2 percent, the rate for prime age workers (ages 25-54) saw continued growth over 2019, following on an upward trend since late 2015, rising from a nadir of 82.1 percent midyear to 82.9 percent in December 2019. In January 2020, the prime-age labor force participation rate reached a recovery high of 83.1 percent—a rate not seen since September 2008. The rate subsequently plummeted to 79.9 percent in April before partially rebounding to 80.9 percent in September.

However, focusing on prime age worker participation has its limitations, given that the concentration of older or younger persons within the overall 25- to 54-year-old category can shift over time and result in lower participation rates as a result of shifting demographics and changing retirement and schooling ages. The ERP noted that adjusting the overall labor force participation rate for demographic distribution—which holds constant for comparative purposes the age, race and sex population distribution to 2007 levels—demonstrates even stronger labor force participation rates, especially among African Americans and Hispanics.[9]

In addition, the employment to population ratio among prime age workers rose over the course of the year from 79.8 percent in

January 2019 to 80.4 percent in December 2019, a level near the record highs of the early 2000s. Notably, in the months prior to the pandemic, the employment to population ratio gap between white Americans and African Americans narrowed to less than two percentage points—one of the narrowest gaps since 1972.[10] The employment to population ratio for prime age workers reached 80.6 percent in January 2020, a level not seen since June 2001, and experienced a drop to 69.7 percent in April 2020 before rising again to 75.0 percent in September.

Wage Growth

Like other labor market indicators, strength in wage growth was also broadly shared. Not only was wage growth strong over the course of 2019, but it was even stronger for a number of demographic groups, including lower-income, African American, and Hispanic workers, as the ERP details: "…wage growth for many historically disadvantaged groups is now higher than wage growth for more advantaged groups, as is the case for lower-income workers compared with higher-income ones, for workers compared with managers, and for African Americans compared with whites."[11] Furthermore, whether measured by average hourly earnings or wages and salaries from the Employment Cost Index (ECI), wages grew nominally by 3 percent as compared to a year ago in the final quarter of 2019. Even adjusting for inflation, wage growth compared to a year ago remained relatively steady, near 1 percent over all four quarters of 2019.[12]

It is expected that nominal wage growth will remain steady in 2020, rising 2.9 percent compared to a year ago in the second quarter of 2020 as measured by the ECI.[13] However, using average hourly earnings, which rose by a nominal 6.4 percent as compared to a year ago in the second quarter of 2020, can be misleading given that so many jobs have been lost during the pandemic,

particularly low-income jobs. Given that the bulk of low-income jobs are in service industries, which typically involve significant in-person interaction, the lockdowns and social distancing brought on by the pandemic had a more detrimental impact to service sector businesses that employ low-income workers. Although it is hoped that wage growth will strengthen as the economy recovers, it remains to be seen whether the gains will be as broadly shared as before the pandemic.

Box 1-1: Measuring the Distribution of Economic Growth

The ERP makes a point of noting that growth in household income in the second quintile was strongest of all quintiles in 2018: "…households between the 20th and 40th percentiles of the distribution experienced the largest increase in average household income among all quintiles in 2018, with a gain of 2.5 percent."[14] While this covers only one year's worth of growth, many critics argue that lower- to middle-income households have lost ground in income gains relative to upper income households. The unit of measurement for income is important when it comes to estimating trend growth across the distribution, and many academics and researchers have deliberated the details of what should and should not be included over time. Researchers have also debated how to measure whether economic growth is shared by households across the income distribution.

Recent analysis, including that of economists Thomas Piketty and Emmanuel Saez, suggests that incomes of the bottom 90 percent of tax units barely budged since the late 1970s.[15] However, using more comprehensive income data from the CBO (that combines tax data and data from the Census Bureau) reveals that median household income after taxes and transfers has grown by $28,000, or 53.5 percent, between 1979 and 2017.[16] Furthermore, average pre-tax and transfer income

for the lowest quintile grew by over a third over the same time period, and by 86 percent when including taxes and transfers.[17]

Even looking at prime-age wage earners instead of households, the story of wage stagnation doesn't hold. Real median hourly wages between 1973 and 2019 have grown by 13 percent, after adjusting for inflation using the personal consumption expenditure (PCE) index. Within that timeframe, it is noteworthy that median hourly wages fell 6 percent from 1973 to 1991 before rising 21 percent since 1991.[18]

This is not to suggest that the rate of wage growth has been strong across the income distribution, but merely to correct the common refrain that typical worker wages haven't grown much if at all. Worker wages have grown significantly, but whether that trend has been satisfactory is a wholly separate issue.

Some analysts, looking at these modest gains for middle and lower-skilled workers suggest that they should be higher—that as workers have become more productive over time, their pay has not risen accordingly. But as labor economist James Sherk and others have noted, labor's share of net nonfarm business income held remarkably stable since measurement first began in 1973. This suggests then that worker wages have kept pace with productivity, as this share would've fallen dramatically if wages and productivity did in fact "de-couple."[19]

In October 2019, the Joint Economic Committee (JEC) held a hearing entitled, "Measuring Economic Inequality in the United States," which showcased the lack of consensus regarding how to allocate national income, so that it can reliably measure how broadly economic growth is shared across income groups.[20] The JEC Chairman's office published a primer, "Measuring Income Concentration – A Guide for the

Confused," covering the debate surrounding income concentration and how it plays into the measurement of national income:

> *The work of Piketty, Saez, and Zucman suggests sharply rising income and wealth inequality, falling tax progressivity, and stagnant income growth for the bottom half of Americans. But other researchers have reported modestly rising income inequality, growth in wealth inequality that is less sharp, rising tax progressivity, and more robust income growth for lower-income Americans. The question of who is right in these debates hinges on a variety of technical measurement questions and assumptions and the quality of various data sources. The debates have become inaccessible to even many observers with considerable economic training.*[21]

Charged with the goal of providing a nonpartisan measurement of the distribution of national income, the Bureau of Economic Analysis (BEA) released a set of initial "prototype statistics" to help researchers and policymakers discern how households across the income spectrum "share in the nation's economic growth."[22] The initial data shows an average annual growth of 0.7 percent for real median "equivalized" personal income over the 2007-2016 period, which is adjusted for household size and inflation, and this average annual growth is slightly above the 0.6 percent annual average change in real GDP per capita over the same period.[23]

Room for Improvement with Policy Reforms

Although the labor market reflected strength across a number of indicators as well as in wage growth and household income during 2019, this is not to say that there's little room for improvement. In fact, a small but growing cohort of individuals in their prime working years have been absent from active participation in the labor market. In recognition of this, the ERP takes care to point out that, despite the strength seen in the labor market over the previous year, there were still "…barriers that prevent lower-income workers from realizing the full benefits of the strong labor market—such as skill mismatches, geographic mismatches, occupational licensing, distressed communities, prior criminal convictions, childcare affordability, and drug addiction."[24]

Adding to this concern, the most recent indicators of a rebound in the labor market since the start of the pandemic-induced recession suggest there has been some initial divergence in the recovery between low-income workers and middle-to-high income workers. Analysis from Opportunity Insights suggests that employment for low-income workers (earning less than $27,000 annually) is down 16 percent from the beginning of February 2020. This drop in employment is approximately ten times the drop experienced by middle-and-higher-income workers (earning more than $60,000 annually) through July 29, 2020.[25]

While the pandemic may have worsened decades-long trends in workforce attachment among lower-income prime age workers, the ERP suggests several policy reforms and initiatives that could reduce barriers to entry for many workers otherwise faced with little opportunity to connect to the labor force.[26]

IMPROVING WORKFORCE ATTACHMENTS FOR THE DISCONNECTED AND SUPPORTING OPPORTUNITIES FOR UPWARD MOBILITY

In chapter 2 of the ERP, the Administration offered a number of reforms that could promote employment, including improving worker skills; reducing geographic immobility; expanding work for ex-offenders; and reforming government barriers like occupational licensing and non-compete agreements. Additionally, policy reforms could proactively strengthen work incentives via safety net reforms and tax policy changes that promote work.

Improving Worker Skills

Enabling low-income workers to acquire in-demand skills expands their job prospects and potential for higher pay. While formal credentials from a post-secondary institution is one way to achieve this, it is not the only option, let alone the most cost effective or realistic option for many Americans. In fact, the traditional post-secondary education model may not serve the full range of jobs available in the labor market, and failing to graduate with the skills demanded can be a costly one, potentially leading to underemployment and lower income.[27]

Many companies offer on-the-job training, tuition-repayment programs, or short-term credentialing. For workers that don't have that option available, it can be difficult to discern which programs will yield lucrative job opportunities. Indeed, even when help is available from Federal workforce training programs, it is difficult to find consistent evidence that the training yields positive results.[28] In fact, it is often difficult for companies to discern which education programs best prepare workers for the jobs they need to fill, and it can be time intensive for companies to vet education programs and evaluate the results.[29]

Apprenticeships sidestep the issue of vetting educational programs and risk of skills mismatch by offering on-the-job training that allows for skill acquisition for in-demand jobs. Apprenticeships are becoming ubiquitous across industries; computer science, engineering, finance, and law are among the expanding types of apprenticeships that offer an alternative to the expensive academic model.[30] As such, the ERP suggests: "…Federal efforts should shift their spending, depending on what the evidence says is the most effective. Among the current Federal worker training programs, Registered Apprenticeships have shown strong improvements in labor market outcomes..."[31]

Another important way that Federal policy could support workforce development and re-skilling efforts is through accreditation reform. As the cost of higher education continues to rise and the search for alternatives to the four-year degree continues apace, Federal policymakers could consider ways to revise accreditation standards so as to incorporate programs beyond the traditional college or university. These could include models like distance learning, Massive Online Open Courses, competency-based offerings, and professional certification exams. New accreditation could offer much-needed guidance to employers and students alike about which programs are legitimate and offer students effective training and education. To that end, Chairman Mike Lee has introduced the *Higher Education Reform Opportunity Act* in order to improve accountability, affordability, transparency, and innovation in the accreditation system.[32]

In addition to apprenticeships and accreditation reform, another potential avenue of enhancing low-income worker skills involves what are known as Employer Resource Networks (ERN), which rely on local employer networks to collectively support and train entry-level workers in order to increase productivity and worker retention.[33] Though the ERN model has not been studied as

rigorously as other programs aimed at improving worker skills, it offers a local-level, private-sector solution with the potential to increase earnings and skill acquisition for low-income workers.

Reducing Geographic Immobility

As firm formation and labor turnover slowed in recent years, and Americans have moved less often since 1970,[34] some have suggested these declines resulted partly from barriers to opportunity. It seems that workers, particularly less-skilled workers, are unable to locate where jobs or educational opportunities are plentiful.

The cost of moving itself is not the only barrier a worker may face to improved job opportunities in another city or state. The ERP notes that "…unnecessary regulations that drive up housing costs can also limit mobility into certain metropolitan areas with strong labor markets (see chapter 8)."[35] In fact, a recent study has suggested that land use restrictions have effectively blocked additional workers from access to opportunity in cities yielding the highest labor productivity. The study finds these restrictions have lowered worker well-being and average wages across cities and have yielded over 50 percent lower overall U.S. economic growth from 1964 to 2009.[36]

Additional research has shown that the convergence of per-capita incomes across states has weakened since 1980, with low-skill people leaving high-income areas while these areas continue to attract high-skill people from low-income areas.[37] Indeed, migration patterns also appear to be diverging between the most and least educated. Though overall mobility has fallen, those with a bachelor's degree or more are not only more inclined to move interstate than those with less education, but their interstate migration rates have actually increased between 2010 and 2016.[38] These recent shifts have lent to the concept of "skill sorting,"[39]

whereby the benefits of living in a high-income area have fallen for low-skill households, resulting in diverging migration between high-skill and low-skill households, and the implicated suspect—local housing policy—warrants further investigation, especially as it pertains to work opportunities and family affordability.

As discussed in the Social Capital Project (SCP) report "Zoned Out: How School and Residential Zoning Limit Educational Opportunity," local housing reforms including eliminating single family-only zoning, increasing height limits, and reducing minimum lot sizes could increase housing diversity and reduce home prices in districts. Momentum for residential zoning reform is growing, with places including Minneapolis, Minnesota, Salt Lake City, Utah, and Oregon passing related legislation this past year.

Whether these reforms will be effective rests partly on government's ability to meaningfully change the process and incentives that generated restrictive regulation to begin with.[49] Increasing states' roles is likely necessary to produce effective reform. States should revisit their State Zoning Enabling Acts (SZEAs), which provide local municipalities with nearly unlimited latitude in producing residential zoning regulation. At the Federal level, attaching zoning liberalization requirements to housing, transportation, or educational grant money may send an important message to jurisdictions.[40]

Reintegration of Ex-Prisoners

One of the most impermeable barriers to employment in America is a criminal record. The formerly incarcerated make up approximately one-third of idle prime-age men.[41] Those currently incarcerated, who are not included in labor force statistics, represent a similarly great loss of economic potential. The scale and difficulty of the challenge cannot be understated. Each year

more than 600,000 prisoners reenter society[42] and join the nearly five million formerly incarcerated Americans who share the mark of a criminal record.[43] They face an estimated unemployment rate of 27.3 percent as of 2018[44] and are ten times more likely to be homeless then the general population.[45] Within a few years, more than half of these former offenders will have reverted to criminal activity and subsequently rearrested.[46] This so-called "revolving door" of the criminal justice system has many causes, but at a basic level, it stems from a failure to *reintegrate* individuals into communities.

The most obvious barriers pertain to the human capital of offenders—namely low levels of educational attainment and job experience among ex-offenders. A myriad of Federal, state, and municipal programs exist alongside non-profit organizations to facilitate reentry, supply health services, supervise, and offer employment assistance. The research literature on reentry and recidivism, however, suggests that social ties to family, work, and community are among the most significant indicators of, and means for, reintegration.[47] Steady employment, in particular, is considered to be an effective means of both encouraging pro-social, lawful behavior as well as discouraging criminal activity.[48]

Public policy could fund experimental programs that provide both basic job experience and career training to offenders while incarcerated. Pell grants could also be extended to offenders—either while incarcerated or post-release—for both degree and non-degree education programs. In 2019, Chairman Lee cosponsored legislation which would restore Pell grant eligibility for the incarcerated, supporting educational attainment for offenders while they serve time so that they're better prepared for employment opportunities when they are released.[49]

Better reintegration and increased employment for the formerly incarcerated is perhaps one of the most consequential public

policy levers available to connect people to work that even a strong economy would leave behind. The ERP discusses the Second Chance hiring initiative, a coordinated effort to reduce recidivism between Federal, state, private and non-profit sectors, which builds on the *First Step Act* of 2018, a law that overhauled the Federal sentencing system. As part of the initiative, the ERP lists a number of Federal agency actions aimed at improving employment for former prisoners:

> *Across the Federal government, the Department of Justice and Bureau of Prisons have launched the Ready to Work Initiative, which links employers to former prisoners; the Department of Education is expanding an initiative that will help people in prison receive Pell Grants; the Department of Labor has issued grants to sup-port comprehensive reentry programs that promote work as well as grants to expand fidelity bonds to employers to assist formerly incarcerated individuals with job placement; and the Office of Personnel Management has made the Federal government's job posting website accessible to people serving in and released from Federal prisons*.[50]

Finally, explicit legal barriers to employment could be addressed, including legal restrictions on working in certain occupations, obtaining a driver's license, securing housing, and receiving public assistance.[51] These "collateral consequences" have a well-documented effect of suppressing economic mobility and undermining reintegration efforts. In fact, 60 to 70 percent of collateral consequences are directly employment-related.[52] Future reforms should therefore address the structural barriers to employment opportunities.[53] As with occupational licensing reform more broadly, legal bans on hiring individuals with a

criminal record or effective bans by occupational licensing boards could—depending on the nature of the occupation—either be removed entirely or revised to provide a safe, legal path to employment for eligible individuals.[54] State and local governments could also form a dedicated task force or launch a review of regulations that circumscribe the employment opportunities of the formerly incarcerated and evaluate whether they might be reformed.

Regardless of the reforms considered, however, policymakers ought to balance the goals of reintegration and employment with the protection of public safety and employers' rights. Likewise, they ought to be sensitive to concerns about special treatment and impartiality. Just as a criminal record should not entail a life sentence of unemployment, it should also not be a voucher for human capital. Instead, public policy should be oriented toward securing opportunity for the formerly incarcerated and rebuilding connections to the American workforce.

Reforming Government Barriers

Occupational licensing is often justified as a tool for promoting consumer health and safety, but it is often a clumsy strategy with damaging consequences for economic opportunity. As the ERP notes, the current state occupational licensing regime remains one of the greatest obstacles to employment opportunities: "The increase in prevalence in occupational licensing has made it more difficult for individuals to find and take jobs in different States."[55] In addition to shutting people out of local employment that might suit them, it limits residential mobility for workers whose license is not portable across jurisdictions.[56] Many states recognize the need for and have begun implementing reforms.

Occupational licensing for jobs in the healthcare industry prove particularly burdensome when a health care provider is

credentialed in one state, but whose license is not recognized in another.[57] Many states have responded to this particular issue during the pandemic by providing reciprocity between states for healthcare jobs, such as the Nurse Licensure Compact (a multi-state license) which is currently enacted in 33 states,[58] and the Interstate Medical Licensure Compact (a multi-license acquisition), which has grown from nine states in May 2015 to 29 states, the District of Columbia and Guam as of May 2019.[59] The Federal Trade Commission has similarly proposed "interstate compacts" whereby states could mutually recognize licenses or expedite licensure if someone has a license in a partner state.[60]

In recent testimony before the Joint Economic Committee, Cato Institute senior fellow Dr. Jeffrey Singer argued that the restrictions suspended during the pandemic will return without permanent elimination of licensure barriers, which included the ability to practice telemedicine across state lines and treatment of patients in states which lack reciprocal credentialing. Instead of preserving laws that reduce access to medical care and new treatment in the midst of a pandemic, states should consider strategies for deregulation.

There are possible federal roles in reform of occupational licensing as well. Dr. Singer argued for Congress to define the "locus of care" as the practitioner's state location rather than the patient not only during the pandemic and exclusively for telemedicine, as bill S.3993 does, but permanently in order to allow for patient access to medical expertise nationwide. Dr. Singer also recommended enabling healthcare practitioners to offer temporary services in "medically underserved areas" located in neighboring states.[61]

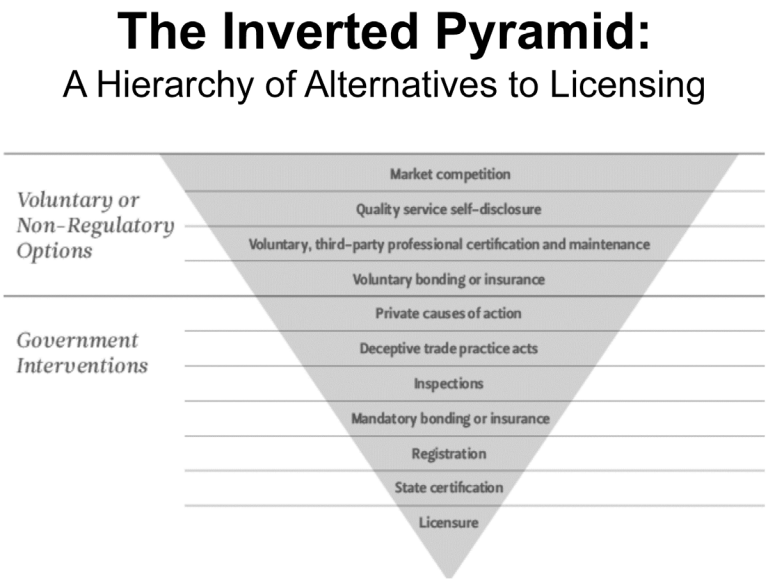
The *Alternatives to Licensing that Lower Obstacles to Work (ALLOW) Act* is another Federal reform that could serve as a model for reducing barriers to employment. This bill proposes

reform of occupational licensing in the District of Columbia, as well as on other Federal property, in addition to enabling reciprocity for military spouses to use their occupational licenses when moving from one state to another.[62]

In addition to these reforms, The Hamilton Project's Morris Kleiner argues the Federal Government can act to promote information about best practices and offer financial incentives, such as allowing states to compete for Federal grants tied to occupational licensing reform proposals. Under this proposal, until a state achieves set benchmarks grant money could be partially withheld.

States can also use cost-benefit analysis to determine whether occupational licensing is warranted for themselves.[63] The variation in types of jobs licensed from one state to the next suggests that some occupations need not be licensed or accredited at all, and the Institute for Justice's "inverted pyramid" provides various alternatives to licensure that state policymakers could consider as substitutes.

Figure 1-1



Source: Institute for Justice, "The Inverted Pyramid: 10 Less Restrictive Alternatives to Occupational Licensing," November 2017, https://ij.org/report/the-inverted-pyramid/

At the widest part of the pyramid (and presumably the most common for occupation types) the inverted pyramid begins with four voluntary options based in market competition, followed by self-disclosure of quality, third-party certification, voluntary insurance and bonding, and then by seven other government interventions, the last three of which are registration, state certification, and finally, licensure.[64]

The increasing use of non-compete agreement, particularly on low-skill workers, presents another growing barrier to additional job opportunities. In response, many states have sought to ban non-compete agreements on low-wage workers, void non-competes found "unreasonable," or limit their reach. Since many workers are asked to sign a non-compete only after accepting a job offer, another suggestion to improve transparency is to require

workers be informed about the existence of a non-compete before the worker accepts the job, or else, as Oregon and New Hampshire have done, render non-competes void if they are not included in "the original terms of employment."[65]

A number of state-level solutions exist that could potentially form a collection of best practices going forward, but by no means represent the only way to reduce these barriers to workforce connections.[66] The Economic Innovation Group highlighted a number of policy options states are considering or using, including: transparency regarding the existence of a non-compete well in advance of a potential worker accepting a job; "garden leave" provisions that compensate a worker for abiding by the non-compete; refusing re-write and subsequent enforcement of vague non-competes; bans on non-competes for low wage workers and specific high-skill jobs; outright non-compete and no-poach bans.[67]

A final potential barrier to work opportunities—thrown into stark relief by the pandemic—involves restrictive local zoning on home-based businesses. Data reveal that nearly seven in ten business startups begin at home, and another nearly six in ten are established home-based businesses as of 2013.[68] In fact, the Small Business Administration (SBA) reports that over half of firms are home-based businesses.[69] However, many cities' zoning regulations effectively thwart many would-be home-based businesses due to onerous requirements or outright prohibitions.[70] Arizona's *Home-Based Business Fairness Act*, though it failed to pass,[71] provides a good example of protecting home-based entrepreneurs provided that a home-based business does not negatively affect the local neighborhood.[72]

ADDITIONAL WAYS TO STRENGTHEN THE LABOR FORCE IN THE WAKE OF THE PANDEMIC

There are multiple actions Congress could take to strengthen the U.S. labor market and speed economic recovery, including the removal of restrictive labor regulations that make it harder for individuals to obtain employment and harder for businesses to access the workforce.[73] In recent testimony before the Joint Economic Committee at the hearing, "Reducing Uncertainty and Restoring Confidence during the Coronavirus Recession," Heritage Foundation research fellow Rachel Greszler pointed to a number of reforms that could improve employment opportunities and flexibility for workers that extend beyond the pandemic. Her suggestions include safe-harbor liability protection for businesses and workers abiding the CDC's recommendations in good faith; greater clarity and harmonization of government definitions of "employee" and "contractor"; a roll back of increases to the overtime-rule threshold; and allowing hourly workers to choose paid time off over overtime pay, as Chairman Lee's *Working Families Flexibility Act* would accomplish. Particularly in light of a post-pandemic labor market, alternative and more flexible work arrangements are increasingly more common between the binary of traditional employee and independent contractor. This has led to calls for an alternative worker classification, the portability of benefits, or waivers of certain labor regulations, in order to allow for more work opportunities.

The onset of the pandemic brought with it a temporary relaxation of requirements for programs like unemployment insurance in order to allow many to maintain social distance while businesses invested in personal protection equipment and procedures and developed plans to operate in good faith with the recommendations from the Centers for Disease Control and Prevention (CDC). Ms. Greszler also suggested that future

discretionary action by Congress to support workers during recessions could be refined to provide a temporary and partial Federal match to state unemployment insurance programs, and unemployment benefits should equal a portion of worker earnings (as already calculated by the state) rather than a set dollar amount.[74] In addition, former CBO director Douglas Holtz-Eakin's testimony in the same hearing argued for policies that supported workplace modification to enable safe operations during the pandemic.[75] Congress could also include liability protections for businesses seeking to reopen safely, aid to cover the cost of new safety protocols, and unemployment insurance that assists the most vulnerable but does not discourage Americans from returning to work.[76] In absence of an immediately available and plentiful vaccine, only employee and customer confidence in the safety measures allows for continued recovery.

Finally, although problems with government finances preceded the pandemic, lack of fiscal discipline at state and Federal levels made response to pandemic worse.[77] In fact, the Coronavirus pandemic has demonstrated that states in better fiscal health—with sufficient savings and rainy day funds that could be deployed to help the jobless or those in need—were in a better position to protect their citizens.[78] Moving forward, states should prioritize fiscal discipline and enact stress testing measures, especially on state unemployment insurance programs, to ensure they are prepared to respond to future economic and health crises.[79]

Apart from policy tools generally deployed by the Administration and Congress, monetary policy is yet another federal policy tool that the Federal Reserve can take to improve employment opportunities for Americans. A well-chosen and consistent monetary policy anchor will not solve every problem—and certainly not ones directly related to public health—but it can facilitate the execution of financial and business contracts and

shore up the social contract by lowering uncertainty about the future.

STABLE MONETARY POLICY CAN HELP IMPROVE CONNECTIONS TO WORK

Output gaps, generating periods of mass unemployment similar to that of the last decade, are among the most important problems in developed economies. The losses from output gaps are most easily denominated in dollars and jobs, but they can also be denominated in other units: mental wellbeing, work friendships, and children who were never born because young couples did not feel financially secure enough for parenthood. These losses are terrible, but at least some of them are preventable. Some past losses were simply mistakes by currency issuers in understanding the complex and fragile systems built atop their currency.

Sharp, unexpected changes in the path of nominal spending—or demand shocks—throw prices out of equilibrium throughout the economy. Layoffs born of this problem are not efficient "creative destruction," or the magic of efficient markets at work; instead, they are glitches in the system of currency issuance, interacting with contract law, norms leading to sticky prices, and individually rational behavior creating feedback loops. Government compounds, rather than alleviates, this problem, when it offers attractive risk-free returns—essentially, above-market rates—on government assets during demand shocks, crowding out or deterring private spending.

Conditional on a policy framework where the Federal Government issues financial assets and legal tender, there must be some rules—implicit or explicit, mandatory or discretionary—that determine when government-issued financial assets are issued, and what they can be redeemed for.[80] These rules are monetary policy, and the

government necessarily has one, whether it wants to or not. If government is to issue financial assets, it should do so in a way that minimizes distortions. As the harms of output gaps are severe, government should make sure that its issuance of financial assets does not unintentionally distort markets and create output gaps unnecessarily.

In the future, currency issuers could achieve better outcomes by stabilizing nominal income. More generally, we can use what we have learned from the experiences of 2007-2019 to help mitigate the present COVID-19 recession, and prevent or mitigate future recessions as well.

CONCLUSION

Prior to the coronavirus pandemic, the American labor market was strong. The remaining months of 2020 may preview how capably the labor market can bounce back. A successful response to current and future crises requires reforms that provide the flexibility Americans need to continue doing the important work that they do every day—working and solving problems in their communities. Whatever policy reforms are undertaken, policymakers must recognize the critical role of the American people, local and state government, and American industry in innovating and responding to crisis.

RECOMMENDATIONS

- As the ERP notes, apprenticeships improve worker outcomes, and shifting Federal worker training programs to the most successful models, like Federal Apprenticeships, can further support a skilled workforce.

- An important way that Federal policy could support workforce development and re-skilling efforts is through accreditation reform so as to incorporate programs beyond the traditional college or university.
- As it pertains to work opportunities and family affordability, local housing reforms including eliminating single family-only zoning, increasing height limits, and reducing minimum lot sizes could increase housing diversity and reduce home prices in districts.
- To reduce recidivism and remove obstacles to employment for ex-offenders, public policy could fund experimental programs that provide both basic job experience and career training as well as Pell grants for both degree and non-degree education programs to better prepare offenders for life after prison.
- Federal reform of occupational licensing in the District of Columbia and on other Federal property could serve as a model to states, and enabling occupational licensing reciprocity between states for military spouses would constitute another improvement.
- In light of the pandemic, Congress could provide liability protections for businesses seeking to reopen safely. Congress could reform labor laws so that hourly workers can choose paid time off over overtime pay, and reform unemployment insurance so that it assists the most vulnerable but does not discourage Americans from returning to work.
- Apart from policy tools generally deployed by the Administration and Congress, a well-chosen and consistent monetary policy anchor can facilitate the

execution of financial and business contracts and support the social contract by lowering uncertainty about the future.

CHAPTER 2: MAKING IT MORE AFFORDABLE TO RAISE A FAMILY

OVERVIEW

Chapter 8 of the *Report* highlights the importance of affordable housing and describes the steps taken by the Trump Administration to improve housing affordability.

Over the last year, the JEC Chairman's staff have conducted extensive research on housing policy. From the perspective of the JEC Chairman's staff, housing affordability is an important component of improving the affordability of having and raising a family, a policy area that is of primary importance to Chairman Lee. Other important components of family affordability include rising student loan debt, childcare costs, regulatory restrictions that discourage household saving, and workplace flexibility for parents. This chapter responds to the *Report's* work on housing policy and reviews some related SCP work on family affordability more generally. Recommendations based on the SCP's findings are presented for each section at the end of the chapter.

FAMILY AFFORDABILITY

One of the five research areas the SCP has explored over the last year is how policy can make it more affordable to raise a family. Being able to afford to raise a family is a critical objective because associational life begins primarily at home. The importance of raising children in a comfortable, happy, and safe environment cannot be emphasized enough, and the advantages of having a

family extend beyond those that accrue to the children who are brought into existence. For parents, getting married and starting a family leads to greater connectivity as individuals commit to each other and settle down. This in turn builds stronger communities which results in a wealth of positive social and economic outcomes. Furthermore, having a family and raising children with proper resources is akin to investing in economic growth, as children grow into adults and become the labor force of tomorrow.

In spite of the importance of family, in recent years, the United States has seen a decline in marriage rates and fertility rates. While there is certainly a broader trend in place—as women began to pursue more education and work in professional careers, age at first marriage increased, and the rising opportunity cost of having and raising children led some women to push off or forgo parenthood altogether—there are other factors at play that have made it more difficult for families to have and raise children. Some of these factors constitute areas in which good policy can make a difference.

For example, housing is one of the largest expenses in a family's budget. Rising housing prices have made it more difficult for families with children to afford the space they need to live comfortably. Furthermore, areas with more expensive housing are associated with better schools for children, and this can have lasting negative effects on the opportunities available to and the outcomes of children from lower-income families.

In addition, rising student loan debt means that many of today's young adults are starting their young lives thousands of dollars in debt. Research and survey results suggests that student debt may increase financial instability, delay marriage, and lower homeownership. Thus, considering policies that may lessen the student loan burden may make it easier for individuals to afford a family.

Another pressing concern that the SCP has examined is the cost of childcare. Reforming childcare regulations that drive up childcare prices would help family affordability in two ways. First, it would directly improve affordability by lowering families' expenses and second, lowering the cost of childcare may enable mothers to work and contribute to their households' incomes.

Relatedly, families need to be able to save to finance the expenses associated with having children. Saving protects families from the detrimental effects of income shocks by allowing them to smooth resources and spending over time. Saving also enables families to reach goals such as buying a family home and paying for children's education. However, the status quo discourages saving because of existing rules and restrictions to saving vehicles.

Lastly, a significant challenge facing families in the twenty-first century is managing competing home and work responsibilities. Parents may want to have children and spend more time raising them but may not have the flexibility or savings necessary to take time off from work to build a family. For families that make it past this initial hurdle, the struggle to maintain a healthy work-life balance is often still a challenge that makes it more difficult to have and raise children.

HOUSING

Housing expenses are often the biggest single financial barrier to starting a family and having children. Having a family requires a larger living space and high housing prices in many parts of the country may make it difficult for families to afford more space. Furthermore, rising home prices in recent years have made it harder for young adults to gather the funds necessary to put a down payment on a home, and this is one of the greatest challenges for young would-be homeowners today. As individuals struggle to

afford housing, this leads to greater financial instability and some may respond by delaying family formation until they have greater housing security.

The problem of affordable housing is especially pronounced for individuals under age 45; in other words, the demographic most likely to be having and raising children. Although income has risen across all age groups in both nominal and real terms between 1989 and 2016, net worth for American households led by individuals under 45 has barely risen at all in nominal terms. In fact, after adjusting for inflation net worth for these households has declined.[81]

Meanwhile, median home prices have more than doubled since 1989, rising from $120,425 to $305,125 and the demand for a responsible down payment of at least 10 percent has risen as well.[82] Thus, in spite of the decline in mortgage interest rates (the average 30-year fixed mortgage rate declined from 10.32 percent in 1989 to 3.65 percent in 2016[83]) the combination of higher list prices and higher down payment requirements have severely reduced housing affordability for young families looking to buy a home. Table 2-1 illustrates these changing parameters over time.

Table 2-1. Median New Home with 10 Percent Down and an Average 30-year Fixed Loan, 1989 and 2016

Year	Median Price	Down Payment	Mortgage Principal	Mortgage Interest Rate	Monthly Payment
1989	$120,425	$12,043	$108,382	10.32%	$977
2016	$305,125	$30,513	$274,612	3.65%	$1,256

Sources: U.S. Census Bureau and U.S. Department of Housing and Urban Development, Median Sales Price of Houses Sold for the United States [MSPUS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MSPUS, April 1, 2020. Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis;

https://fred.stlouisfed.org/series/MORTGAGE30US, April 1, 2020. Author's Calculations.

Table 2-2 demonstrates the effect that these changes have had on housing affordability. For example, for households led by an individual under age 35, the median down payment in 2016 represented 277 percent of that household category's median net worth, an increase from 154 percent in 1989.

Table 2-2. Affording a Median Home: Young Households, 1989 and 2016

Age of Household Head	Year	Down Payment as a % of Net Worth	Debt Service Payment as % of Income
Under 35	1989	154%	56%
Under 35	2016	277%	37%
35-44	1989	21%	32%
35-44	2016	51%	23%

Source: Author's calculations and prior data from Federal Reserve SCF, Census Bureau, and Freddie Mac.

It should be noted that not all of these changes are bad news for housing and family affordability. While net worth for younger individuals has declined and a down payment has become relatively more expensive for younger households, today's younger generation may have more education and better professional opportunities than generations past, putting them in a better place to earn higher incomes later on in life, thereby reducing the burden of a monthly mortgage payment. However, at a time in life when it matters the most, younger households' financial means are limited, which makes it more difficult to afford a family.

The unintended negative consequences of Federal tax policy on housing prices

As noted in Chapter 8 of the *Report*, unnecessary regulations have driven up housing prices in certain metropolitan areas. Housing regulations that restrict the supply of housing may also indirectly affect housing prices through the tax code. The SCP has explored the role of Federal tax policy in rising housing prices. Federal tax policy interacts with housing affordability through the deductibility of residential property taxes and mortgage interest. A recent report released by the JEC Chairman's staff shows that while these deductions are intended to increase housing affordability, and they certainly may be helpful for homeowners, they can also have the unintended side effect of increasing prices of existing homes, thereby making it more difficult for first-time homebuyers to break into the housing market.[84]

Basic economic theory predicts that housing-related tax deductions can raise housing prices especially in high-priced cities with relatively inelastic housing supplies. The intuition is simple: tax deductions associated with buying a home render the home more valuable to the homebuyer and increase his or her willingness to pay for it. Tax deductions also increase demand from buyers. In theory, if the housing market were capable of adjusting, an increase in demand would lead to an increase in the supply of housing to meet growing demand (albeit at a higher price). However, if the supply of housing is inelastic, restrained by zoning and other housing regulations, then a rise in the demand for housing can lead to a significant jump in housing prices. Thus, tax deductions that may on the surface appear to be a boon to homebuyers, can in fact result in higher home prices, which in turn makes it more difficult to amass the necessary down payment and makes it more difficult to afford buying a home. Metropolitan

areas that have especially inelastic housing supplies are more prone to this problem and therefore to higher home prices.

The *Tax Cuts and Jobs Act* (TCJA) passed by the Administration in 2017 included three changes to the tax code that interact with the cost of housing and individuals' willingness to pay for it.

- The mortgage interest deduction was reduced to apply to only the first $750,000 of principal (previously the limit had been set at $1,000,000).
- The deductibility of state and local taxes was reduced to the first $10,000.
- The standard deduction was nearly doubled from $13,000 to $24,000.

These changes interact with the cost of housing and willingness to pay in a few important ways. First, capping the mortgage interest deduction so that it applies to only the first $750,000 reduces an individual's incentive to buy a more expensive home because he or she no longer reaps any tax benefits for a principal loan balance over $750,000. Furthermore, capping state and local tax deductions at $10,000 implies that for taxpayers who live in high-tax states and who would already reach this limit irrespective of a home purchase, home value at the margin does not trigger additional property tax deductions. Thus, the incentive to buy a more expensive home for the purpose of receiving greater tax benefits is similarly dampened. Lastly, the substantial increase in the standard deduction means that many households that were formerly itemizing deductions (and therefore able to deduct property taxes and mortgage interest) may find it more beneficial to take the standard deduction. This also reduces the incentive to buy an expensive home.

Given these changes, TCJA should reduce home prices in expensive areas, or at a minimum, slow down the rise in housing

prices in these areas, which does appear to be the case thus far. As the JEC report shows,[85] the housing market changed significantly after the passage of TCJA. High-priced housing markets slowed down and moderate-priced markets (such as those in Boise and Salt Lake City) began to pick up. While this evidence is merely suggestive, it is consistent with the hypothesis that tax deductions can and do have important effects on housing prices, willingness to pay, and overall housing affordability across the U.S.

Given the evidence that the deductibility of residential property taxes and mortgage interest can perversely lead to rising prices and exacerbate the problem of housing affordability, the JEC Chairman's staff strongly recommends further limiting these deductions. The TCJA made several beneficial steps forward but more can and should be done to curb the harmful effects of these deductions. While these tax deductions aim to lessen the financial costs of owning a home, the benefits are largely captured by existing homeowners while unanticipated side effects of rising prices make it harder for would-be homeowners to break into the market.

The mortgage interest deduction should be further limited to a maximum of $300,000 in principal. Such a measure should be revenue-raising, and used in combination with other family-affordability measures (such as expanding the Child Tax Credit), these revenues can be returned to families in more effective ways.

Zoning and housing affordability are tied to quality education for children

Zoning regulations restrict the supply of housing and drive up housing prices, but also make it more expensive for families to send their children to high-quality schools. In spite of the numerous options available to parents (private schools, magnet and charter schools, etc.) more than 70 percent of children in the

U.S. are enrolled in public schools.[86] Children often are assigned to public schools via school zoning, and where a student lives determines the quality of education he or she receives. This adds another layer of complexity to the problem of affordable housing for parents looking to start a family or raise children; in other words, parents need to find affordable housing with the space to raise a family but also consider the quality of local schools.

Further complicating this problem is that the quality of schools is related to median home prices in the school's area. Examining public elementary schools across the U.S., a Social Capital Project report finds that the average ZIP code associated with a high-quality public school has a significantly higher median home value than the average ZIP code associated with a low-quality public school, even when regional differences are accounted for.[87]

However, the average relationship between median home prices and public-school quality estimated when pooling all ZIP codes across the U.S. masks considerable variation across different cities. Research by the JEC Chairman's staff documents some of this variation in a cross-city comparison between Portland, San Francisco, Houston, and Chicago.[88] Two factors appear to be important in the accessibility of affordable housing and quality education: the intensity of zoning regulations (more versus less restrictive), and the type of school enrollment in the particular city (open enrollment or districtwide lottery versus residential assignment). These factors also interact with each other so that depending on the combination of characteristics, accessibility to affordable housing and quality education varies.

For example, Portland pairs restrictive residential zoning regulations with traditional residential school assignment. Portland has home prices that are significantly above national averages, and which increase across increasing school quality.

On the other hand, San Francisco has more open enrollment policies (with a districtwide lottery) but restrictive residential zoning. This combination of characteristics makes San Francisco a difficult city in which to raise a family because although more open enrollment seems to lead to a flatter relationship between home prices and school quality, restrictive residential zoning has led to sky-high home prices across all school quality levels. Thus, open enrollment does not necessarily guarantee greater accessibility to quality schools.

Houston is known as the only major city without a traditional zoning code, and the city combines this feature with traditional school assignment. In spite of significant population growth in recent years, this combination of characteristics has allowed Houston to both keep the level of home prices relatively low (on par with national averages) and flatten the relationship between home prices and school quality. While home prices in Houston still do increase with school quality, the increase is relatively small, possibly because the overall price levels remain low due to policy.

Lastly, Chicago combines moderate residential zoning with open enrollment policies that also seem to yield positive outcomes; housing prices are only somewhat higher than national averages, and the relationship between home prices and school quality is essentially flat.

While these observations are not sufficient to provide causal evidence for the relationship between the variables examined, these observations provide interesting insights on possible interactions between these variables. These findings suggest that more open enrollment seems to reduce the link between home prices and school quality. Furthermore, more restrictive zoning regulations are associated with higher home prices while less restrictive zoning regulations are associated with lower home

prices across all school quality levels. Thus, while enrollment policies are important in flattening the relationship between school quality and home prices, more lenient residential zoning has the potential to greatly increase affordability and accessibility to housing and quality schools by lowering the level of home prices across the board.

In summary, residential zoning is an important component of any family affordability story. As noted in Chapter 1, states and local jurisdictions should implement less restrictive zoning regulations, states should revisit their aforementioned SZEAs, and at the Federal level, zoning liberalization requirements could be attached to housing, transportation, and educational grant money to encourage local reform.

THE AFFORDABILITY OF HIGHER EDUCATION

Another factor affecting family affordability is the affordability of higher education—namely rising college prices and the rising level of student-loan debt. This affects family affordability in two ways.

First, rising college prices have a direct impact on a household's budget, not just for the years in which children are enrolled in college but in many cases also for the years leading up to college, when parents may budget and save to be able to afford to send their children to school.[89] This is likely hardest on middle-income families, who earn enough that they do not qualify for the financial aid available to many of the lowest-income students attending college, but also do not earn enough to make the college price tag manageable.

Second, as some families struggle to cover the cost of college, many students take out loans to cover their college expenses.

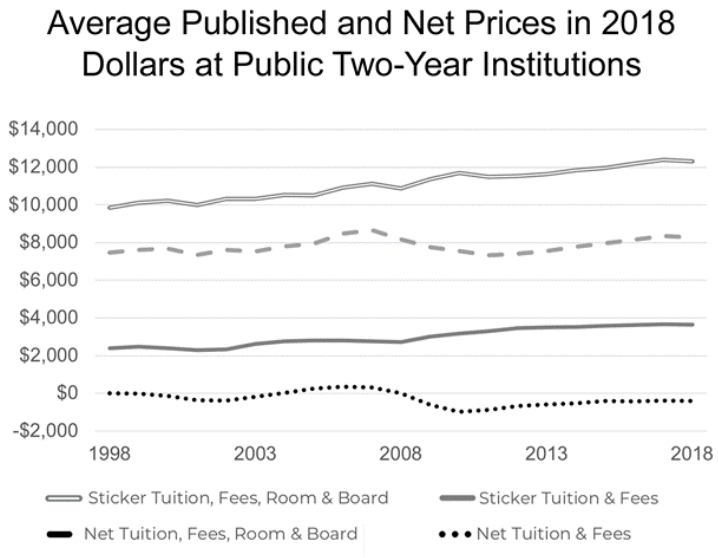
While the ability to finance higher education is a noteworthy aspect of the American higher-education system, because it expands access to college, taking on student debt increases financial instability for young adults and may contribute to a plethora of related and negative consequences.

The net price of college is lower than the sticker price but is still rising over time

The sticker price of a college education has skyrocketed over time. When examining the increase in net prices faced by students, it appears that while tuition rates have gone up, the net prices paid by students vary so that while some students have faced fairly stable prices over time, others have faced increasing prices.

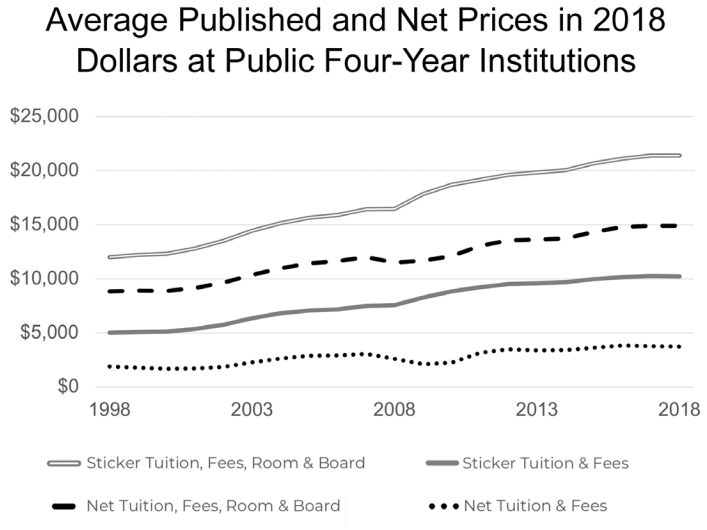
Figures 2-1, 2-2, and 2-3 use data from the CollegeBoard to show how average published prices compare to net prices at public two-year, public four-year, and private institutions.[90]

Figure 2-1



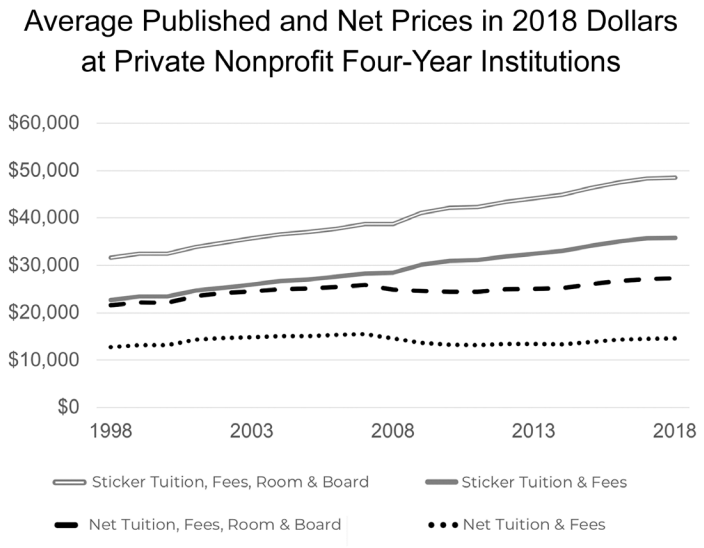
Source: CollegeBoard Annual Survey of Colleges, Trends in Student Aid 2018; NCES, IPEDS Fall Enrollment and Student Financial Aid. Data Accessed at: https://research.collegeboard.org/trends/college-pricing/figures-tables/average-net-price-sector-over-time

Figure 2-2



Source: CollegeBoard Annual Survey of Colleges, Trends in Student Aid 2018; NCES, IPEDS Fall Enrollment and Student Financial Aid. Data Accessed at: https://research.collegeboard.org/trends/college-pricing/figures-tables/average-net-price-sector-over-time

Figure 2-3



Source: CollegeBoard Annual Survey of Colleges, Trends in Student Aid 2018; NCES, IPEDS Fall Enrollment and Student Financial Aid. Data accessed at: https://research.collegeboard.org/trends/college-pricing/figures-tables/average-net-price-sector-over-time

It is apparent that while sticker prices have certainly increased over time, net prices—the prices actually paid by students once taking into account grant aid and tax credits—have evolved differently for the three categories of schools shown. In other words, public four-year schools saw the largest price increases from 1998-1999 to 2018-2019; net tuition and fees increased by 100 percent from $1,870 to $3,740, and net price factoring in room and board increased by 68 percent, from $8,850 to $14,880.

On the other hand, net prices for public two-year schools have not grown by much or at all; net tuition and fees declined from $20 to -$390 and net tuition, fees, room and board increased by a modest 11 percent from $7,480 to $8,270. Similarly, private nonprofit schools experienced much more modest price increases in net prices when compared to sticker prices. Sticker prices for tuition and fees imply a 58 percent increase (from $22,710 to $35,830), however, net tuition and fees only grew 15 percent (from $12,750

to $14,610). The net price increase is higher when factoring in room and board (a 26 percent increase, from $21,630 to $27,290) possibly reflecting that part of rising college costs may be driven not by tuition but by a secular increase in living and housing costs.

Average net price also varies along the student-household income distribution. In fact, it is reassuring to note that although college prices are increasing at most schools, prices rose at a slower pace for the poorest students. In the 2015-2016 school year, full-time public two-year dependent college students from families in the lowest income category (households earning less than $35,000 annually) paid only about 20 percent of the net tuition paid by students in the highest family income category (earnings $120,000 or more annually).[91] Most of the aid (75 percent) received by lowest-income students came in the form of grant aid from the Federal Government. Similarly, the average net tuition and fee price for full-time public four-year college students in the lowest income category was $2,340 (21 percent of the average price paid by students in the highest income category, $11,150).[92]

Turning to students enrolled in nonprofit private schools, the average net tuition and fees paid by full-time four-year dependent students in the lowest income category has remained fairly stable from 2003-2004 to 2015-2016. In 2015 constant dollars, the price declined slightly from $7,710 to $7,580.[93] On the other hand, prices faced by students in the highest income category have risen over time from $21,050 to $23,970 over the thirteen-year period.[94] Thus, it seems that the poorest students have not only faced lower prices (roughly a third of the price paid by highest-income students) but that these prices remained stable over time compared to prices faced by the wealthiest students.

There are a number of factors likely contributing to rising college prices. For example, there is some evidence that the "Bennett Hypothesis" may have some validity. The Bennett Hypothesis

posits that for some schools and certain types of aid, Federal funding for higher education has perversely led schools to raise tuition as they pass on the costs to students who, with Federal aid, have access to more financial resources. While the evidence is mixed, there is at least some suggestive evidence to support this view,[95] and to the extent that the Bennett Hypothesis holds, the Federal Government should review caps on Federal aid.

The Federal Government should also consider enabling other vehicles that would allow financially constrained individuals to pursue higher education. For example, income-share agreements may provide another option for students to finance their education.

Federal funding could be tied to students' timely graduation. Schools are paid as long as students are enrolled, such that a fifth-year student in a four-year program provides the school with an additional year of funding. This can create perverse incentives for schools to refrain from graduating students as quickly as possible, and on the student's side, additional years of education increases the cost of his or her education.

Student debt may affect family formation and family affordability

The second aspect of higher-education affordability closely connected to family affordability is the rise in student debt. There is evidence—both anecdotal and empirical—that student debt increases financial instability and may contribute to delayed marriage and family formation. In other words, as individuals pursue more schooling and incur student loan debt, financial instability increases and is sustained for years after schooling is completed. Some have argued that this can make it difficult for young adults to start a family, and the rising price of schooling over the past two decades may have exacerbated this issue.[96]

A study from the Pew Research Center provides anecdotal evidence that financial instability is an important determinant of marriage rates. The study draws on a survey conducted among 4,971 U.S. never-married adults and finds that 58 percent would like to get married someday, 27 percent are unsure, and 14 percent do not want to get married.[97] Further examining the sub-sample of never-married individuals who report wanting to get married, the survey finds that 41 percent cite financial instability as a major reason for not having married.[98] The survey also reveals that delaying marriage because of financial instability and not being ready to settle down is more prevalent among younger adults; for the individuals surveyed, about half of those ages 18 to 29 cite financial instability as a barrier to marriage, compared to roughly 1 in 4 for those ages 30 and older. As younger generations are more likely to pursue higher education and take on debt to finance the costs, the resulting debt may have detrimental effects on marriage and family formation.

Some empirical evidence supports the possibility that student loan debt negatively affects marriage rates. For example, Gicheva (2016)[99] uses data from a panel survey of registrants for the Graduate Management Admission (GMAT) Test and finds that the amount of accumulated student debt is negatively related to the probability of first marriage, especially for younger women. Another study by Sieg and Wang (2018)[100] examines a sample of female lawyers and finds that student loans have a negative effect on marriage prospects, namely on the quality of the marriage match and the timing of marriage. They find that women with more law school debt postpone marriage and delay childbearing. However, the authors do not find similar negative effects of debt on marriage for men, suggesting that there are gender differences in the way financial instability may impact marriage rates.

Furthermore, student loans may play a role in delaying childbearing. This is particularly worrisome considering declining fertility rates in the U.S. and the recent finding that fertility rates have declined to the point that they are now below replacement. Nau et al. (2015) use data from the National Longitudinal Study of Youth 1997 cohort (NLSY97) to study the effects of personal debt on the transition to parenthood and they find that for the generation coming of age in the 2000s, student loans delay fertility for women, especially at very high levels of debt.[101]

In addition to delaying family formation, there is also evidence that student debt negatively impacts homeownership which is another important aspect of family affordability. In a survey conducted by SoFi, 1,000 individuals aged 22 to 35 were asked about the effects of their student debt. More than half of the respondents reported delaying a major life event because of student debt, and 61 percent reported delaying buying a home.[102]

A 2019 report by the Federal Reserve examines the relationship between student debt and homeownership between 2005 and 2014 and finds that while 45 percent of adults aged 24 to 32 were homeowners in 2005, only 36 percent of individuals in this age range were homeowners in 2014.[103] The authors of the study estimate that 20 percent of the decline in homeownership amongst young adults is due to the rise in student debt since 2005. More specifically, they find that for a $1,000 increase in student debt, homeownership rates decline by 1 to 2 percentage points for young student-loan borrowers. While the authors do not argue that student debt is the main driver of the declining homeownership rate, their findings do indicate that student debt can have negative effects on young adults achieving important milestones.[104]

How much are students borrowing?

For 2017-2018 bachelor's degree recipients who took out loans to pay for college, the average amount was $29,000 (a 1 percent

increase from the average amount in 2012-2013). Looking at the distribution of borrowers and debt by outstanding balance in 2019, 55 percent of borrowers owed less than $20,000, representing 14 percent of the outstanding Federal debt. Another 30 percent of borrowers owed more than $20,000 but less than $60,000, representing another 32 percent of the outstanding debt burden. 9 percent of borrowers owed between $60,000 and $100,000, presenting 20 percent of the outstanding debt burden. 5 percent of borrowers owed between $100,000 and $200,000 (20 percent of the debt burden), and 2 percent owed more than $200,000 (15 percent of the debt burden).[105] Reassuringly, this data shows that only 25 percent of borrowers take out more than $40,000 in loans, and that a very small proportion of borrowers (7 percent) exceed the $100,000 mark.

To get a sense of the variation in the burden of financing higher education across students of different financial means, it is useful to consider how much students along the income distribution are borrowing and how this has changed over time. From 2011-2012 to 2015-2016, borrowing increased for all income categories along the income distribution. However, the increase was largest for the wealthiest students. Over the course of completing a degree, students in the lowest income quartile borrowed on average a total of $14,877 in 2015-2016, $1,391 more than in 2011-2012. The highest income quartiles borrowed an average of $25,401, $4,473 more than four years prior.

In 2011-2012, students from households in the highest income quartile (incomes above $120,000) borrowed around $7,500 more over the course of the degree than students from households in the lowest income quartile (incomes below $30,000). In 2015-2016, the borrowing gap increased to $10,500 (possibly reflecting in part the increase in prices faced by highest-income students attending private nonprofit schools).[106] The greater rates of borrowing

among wealthier students likely reflects that these students are more likely to attend private, more selective, higher-cost schools, thus reflecting a choice to take on more debt.

While it is reassuring to note that most students do not take on exorbitant amounts of student debt, many students take on some debt that may delay important milestones for family formation. Thus, figuring out a way to reduce student debt and free young adults from starting out their lives in a financial rut would help alleviate this particular challenge to family affordability.

Student-loan defaults

Although the vast majority of Americans taking out loans to pursue higher education borrow no more than the cost of a new SUV, student loan default rates suggest that for at least some borrowers, paying down student debt is a financial struggle. In 2016, the national cohort default rate was 10.1 percent,[107] meaning that roughly 1 in 10 students in the U.S. entering repayment on certain Federal Family Education Loan (FFEL) Program or Federal Direct Loan Program loans during the 2016 fiscal year defaulted prior to the end of the following fiscal year.[108] Table 3 shows the default rate for public schools, private nonprofit schools, and private for-profit schools in 2016, 2015, and 2014.

Table 2-3. Student Loan Default Rates 2014-2016

	Fiscal Year 2016			Fiscal Year 2015			Fiscal Year 2014		
	Default Rate (%)	# of Borrowers Defaulted	# of Borrowers Entered Repayment	Default Rate (%)	# of Borrowers Defaulted	# of Borrowers Entered Repayment	Default Rate (%)	# of Borrowers Defaulted	# of Borrowers Entered Repayment
Public	**9.6%**	**236,948**	**2,467,803**	**10.3%**	**269,876**	**2,616,327**	**11.3%**	**303,389**	**2,678,811**
< 2 years	12.7%	1,184	9,277	11.7%	1,152	9,838	13.8%	1,491	10,775
4+ years	6.8%	119,117	1,728,380	7.1%	125,949	1,754,066	7.5%	132,573	1,746,499
Private non-profit	**6.6%**	**71,515**	**1,069,593**	**7.1%**	**78,706**	**1,106,590**	**7.4%**	**82,867**	**1,108,120**
< 2 years	16.6%	1,296	7,778	22.0%	2,247	10,198	19.8%	1,654	8,312
4+ years	6.3%	65,748	1,032,483	6.6%	70,918	1,063,322	7.0%	74,255	1,060,472
Private for-profit	**15.2%**	**149,892**	**985,335**	**15.6%**	**182,686**	**1,167,289**	**15.5%**	**194,027**	**1,250,242**
< 2 years	17.6%	25,779	146,113	17.9%	28,288	157,850	17.0%	27,459	161,350
4+ years	13.7%	84,587	616,875	14.3%	110,842	771,162	14.6%	121,103	829,467
Total	**10.1%**	**458,687**	**4,533,276**	**10.8%**	**531,653**	**4,900,932**	**11.5%**	**580,671**	**5,047,954**

Source: U.S. Department of Education, Federal Student Aid: FY 2016 official cohort default rates by institution type (2019). Accessed at: https://www2.ed.gov/offices/OSFAP/defaultmanagement/schooltyperates.pdf. See also for an overview: https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html

Several insights can be drawn from the rates shown in table 3. First, the national default rates (in the row marked "Total") mask considerable heterogeneity across types of schools and students. Second, overall, default rates seem to have declined slightly from 2014 to 2016 (except for for-profit two-year students). Third, four-year schools have lower default rates than two-year schools. Lastly, four-year public and private school students have considerably lower default rates than two-year students at these schools and students at for-profit schools.

These insights are important because they suggest that student debt is most difficult to manage for students who attend two-year programs and for-profit schools. Additional evidence from the

CollegeBoard finds that student loan default rates are highest for borrowers with low balances. The CollegeBoard reports that among borrowers entering repayment in 2010-2011, the three-year default rate ranged from 24 percent (for those owing $5,000 or less) to 7 percent (for those owing $40,000 or more). In fact, 67 percent of those who defaulted owed $10,000 or less.[109] Furthermore, the CollegeBoard data also shows that for all types of schools, students who complete their degrees have higher repayment rates than those who do not. The lowest repayment rate is for noncompleters in the for-profit sector, and the repayment rate was 26 percent for recent cohorts.[110]

The evidence suggests that student debt can have harmful implications for family affordability. Furthermore, difficulties in repaying student debt (which is likely strongly tied to financial instability and family affordability challenges) is most pronounced for students who attend two-year schools, for-profit schools, and for students who don't graduate their program of study.

Taken together, these findings suggest that income-share agreements (ISAs) may be a useful alternative to student loans. ISAs have the flexibility to tailor the terms of the loans to the likelihood that the student will graduate and find a good job. Thus, ISAs are more likely to give better terms to promising students pursuing viable careers. As for low-achieving students pursuing useless degrees, an ISA would offer less attractive terms, which may dissuade students from pursuing that path. This may be effective in minimizing the number of students pursuing a "lemon" degree who end up in debt with no ability to repay their loans.

Additionally, some students pursuing a two-year degree may be better suited to other career paths. Secondary schools, guidance counselors, and parents need to provide this information early enough for young adults to find their way. The U.S. Government

already provides some resources on apprenticeships through an online website that will identify local programs in a variety of fields.[111]

CHILDCARE

Affordable childcare may affect fertility rates

Affordable childcare is a necessity for many working parents, and some empirical evidence supports a positive link between childcare affordability and fertility. For example, some evidence suggests higher child care affordability can lead to higher fertility rates.

Much of this research has been conducted in European countries that share America's problem of declining fertility. Early studies provide ambiguous results that overall provide some weak support for the positive relationship between affordable childcare and fertility. For example, Blau and Robbins (1989) use longitudinal data on employed and non-employed married women to examine transition rates into fertility. They find that childcare costs have statistically significant negative effects on the rate at which non-employed mothers have births (but not employed mothers). In other words, for every dollar increase in weekly childcare costs, the birth rate declines by about 2 percent.[112] Also, Diprete et al. (2003) use national fertility data (for the U.S., former West Germany, Denmark, Italy, and the U.K.) to calculate parity-specific probabilities of having a next birth, and relates these probabilities to country-specific costs of having children. The authors find suggestive evidence that women do respond to their perception of the costs involved in having children.[113]

In more recent work, Wood and Neels (2019) examine the case of Belgium and use longitudinal data and information on childcare

coverage rates to estimate the effect of local formal childcare availability on births. They find that effects of childcare coverage on first births are positive and statistically significant for all specifications and effects on higher-order birth are positive for some specifications.

In addition, a working paper by d'Albis et al. (2017) finds that childcare services are an important determinant in having a second child. Examining countries in Europe, they find that for countries with low access to childcare, the probability of having a second child is significantly reduced for middle- and highly-educated women in comparison to countries with high access to childcare.[114] Another working paper by Bauernschuster et al. (2013) examines Germany in particular and finds that the provision of public child care leads to an increase in birth rates.[115]

Rising childcare prices

Particularly for working parents, the necessity of childcare creates a non-negotiable expense that can often put a serious dent in a family's budget. In a recent survey conducted by *The New York Times*, 64 percent of young adults reported childcare costs as a major deterrent to having children.[116] For those who choose to have children, the evidence suggests that the costs do indeed impose a burden. According to a recent poll conducted by NPR, the Robert Wood Johnson Foundation, and the Harvard T.H. Chan School of Public Health, nearly a third (31 percent) of parents who pay for childcare say that the cost has caused a financial "problem" for their household.[117] While childcare expenses vary significantly by household income level, region, and composition (i.e., whether the parents are married and how many children they have), the average annual child-rearing expenses, the U.S. Department of Agriculture (USDA) estimates that American parents spend

between 9 percent and 22 percent of their total income on childcare.[118]

A 2018 report by *ChildCare Aware of America* (CCAA) estimates that the average national cost of childcare for a child under the age of 4 was between $9,000 and $9,650 in 2017. This corresponds to over 10.6 percent of the median household income for a household with married parents and children under 18. For single parents, these costs correspond to 37 percent of household income. The CCAA does caution against relying too heavily on national averages, considering the strong heterogeneity in the national childcare landscape, but nevertheless, the numbers suggest that costs may indeed be an issue at least for some families.

According to the CCAA report, in 41 states and the District of Columbia, the average cost of center-based care for an infant exceeds 10 percent of state median income for a married couple with children. Furthermore, 10 states have annual childcare costs that exceed 44 percent of the median income in that state.[119]

The high cost of childcare has not remained static in recent decades. A 2013 U.S. Census report showed that weekly childcare costs for a family with an employed mother rose by about 70 percent from 1985 to 2011.[120] Measures of childcare expenditures reported often rely on average amounts. If expenditures are roughly the same across households, this would be an appropriate representation of households' behavior. However, when examining the median amount spend on childcare instead of the average amount, two important findings come to light. First, the average national cost of childcare masks differences in expenditures across the income distribution, suggesting that the average statistic is not a good representation of household spending. A 2015 study by Chris Herbst shows that when considering the median instead of the average (a measure that is less sensitive to outliers in the data), weekly expenditures rose by

16 percent from 1990 to 2011. Second, the rise in expenditures seems to be concentrated amongst married, college-educated, high-income households, suggesting that high-earning urban dwellers may face the brunt of rising childcare costs.[121]

Among the various explanations for rising childcare costs. Kubota suggests that massive increases in childcare subsidies for low-income families in the 1990s and 2000s, which were supposed to lower the consumer price of childcare, unexpectedly suppressed childcare supply and lead to modest but unaffordable increases in cost. These subsidies may have led to the marked decline in this period of the number of home-based childcare workers (e.g. nannies, babysitters, family daycare homes) as they were able to place their own children in subsidized childcare and move onto higher paying jobs themselves.[122]

Another possible factor explaining rising childcare costs is the regulatory burden imposed on childcare providers and centers. This may explain in part the decreasing number of childcare providers which could in turn affect costs.[123] Furthermore, as noted by a recent Mercatus Center report, increasing regulatory compliance costs are not only passed onto parents, but may also result partially in lower staff wages.[124] Low wages in turn result in high staff turnover and a low commitment level, which can then negatively affect the quality of childcare needed for childcare centers to meet regulatory requirements. As a result, reviewing the unintended consequences of unnecessary and burdensome regulations is desirable.

In line with this view, in his testimony[125] before the JEC last year, Ryan Bourne highlighted that state-level childcare staffing regulations such as staff-to-child ratios and qualification requirements for childcare workers, have reduced the supply of childcare centers, particularly in poor areas. This has contributed to rising prices and fewer options for parents.

UNIVERSAL SAVINGS ACCOUNTS

At the heart of family affordability and building social capital lies the ability to save. Building a family is expensive and ensuring that one has the financial resources to do so is often the first step in deciding to get married and even more often in deciding to start a family. Costs such as housing, childcare, and eventually education are some of the more daunting ones, but there are also smaller costs that need to be planned for such as medical expenses, clothing, and food.

The JEC Chairman's staff recently released a report that shows that the current tax code discourages saving as compared to spending.[126] In other words, current consumption is taxed only once at the Federal level but future consumption (i.e., savings and investments) is taxed twice, first on the principal balance in savings and then on any earnings that result. This renders saving less attractive than spending and reduces benefits to individuals and families.

Furthermore, the Federal Government chooses to exempt certain types of savings from penalty by allowing for very narrowly and specifically defined savings accounts that have stringent restrictions on contribution limits, income eligibility, and age among other factors. Table 2-4, reproduced from the JEC report, outlines existing tax-preferred savings accounts.[127]

Table 2-4. Current Savings Accounts in the Tax Code

	Expected Term Length	Contributions or Distributions Taxed	Income Eligibility Limit	Age Limit	Contributions of Earned Income Only[1]	Time Limit	Penalty for Ineligible Use or Early Withdrawal	2020 Contribution Limits[2]
Retirement								
Defined Benefit Plan (Pensions)	Long	Distributions	No	Yes; 62[3]	Yes	No	Yes	N/A
Defined Contribution Plan (401(k), 403(b)...)	Long	Distributions	No	Yes; 59½[3]	Yes	No	Yes	$19,500
Traditional IRA	Long	Distributions	No[4]	Yes; 59½[3]	Yes	No	Yes	$6,000
Roth IRA	Long	Contributions	Yes	Yes; 59½[3]	Yes	Yes[5]	Yes	$6,000
Education and Disability								
Qualified Tuition Plan (529s)	Short-Medium	Contributions	No	No	No	No	Yes	$15,000[6]
Coverdell ESAs	Short-Medium	Contributions	Yes	Yes[7]	No	No	Yes	$2,000
ABLE Account[8]	Varies	Contributions	No	No[9]	No	No	Yes	$15,000[6]
Health and Dependent Care								
Dependent Care Flexible Spending Account	Short; "use or lose"	Neither	No	No	Yes	Yes[10]	N/A[11]	$5,000
Health Flexible Spending Account	Short; "use or lose"	Neither	No	No	Yes	Yes[10]	N/A[11]	$2,750
Health Savings Account[12]	Varies	Neither[13]	No	No[13]	No	No	Yes	$3,550 self-only; $7,100 family

1. IRS definition of "earned income" varies according to the type of account.
2. Some accounts allow additional "catch-up" contributions for those age 50 and older. Some plans, such as SIMPLE 401(k)s, have lower contribution limits.
3. Age limits for retirement plans specify the earliest access without IRS penalty in usual circumstances. There may be separation-from-service or other consideration. In addition, retirement funds cannot be kept in tax-deferred retirement accounts indefinitely; with the exception of Roth IRAs, there are required minimum distributions by age 70½ for those who turn 70 by July 1, 2019, or by age 72 for those who turn 70 after that date.
4. No income eligibility limit to contribute, but the tax deductibility depends on income.
5. Cannot withdraw earnings within five years of the first contribution without penalty.
6. Overall contribution limits may vary by state, but $15,000 is the Federal limit, above which the gift tax applies.
7. Account must be established before beneficiary turns 18 and balance must be used before beneficiary turns 30.

8. ABLE accounts are intended to help with disability-related expenses, but as section 529A plans, they allow rollovers from 529 plans.
9. Qualifying disability must occur or have occurred before age 26.
10. Must use within eligible expense period or lose the funds.
11. Funds are plan administered and must be approved for payments and reimbursements.
12. Excludes Archer and Medicare Advantage Medical Savings Accounts.
13. Qualified distributions are tax free. Unless age 65 or older (or disabled), non-qualified HSA distributions are subject to a penalty.
Source: "Saving for Social Capital" Social Capital Project, JEC Republicans, May 26, 2020,
https://www.jec.senate.gov/public/index.cfm/republicans/analysis?ID=2D14ADC0-B531-441F-A86C-96F190F97F99

While these accounts in theory are helpful in that they should facilitate saving (at least for certain purposes), in practice they are riddled with problems. First, because of the many restrictions that exist, individuals may either be disqualified or discouraged from using these accounts. Second, these saving vehicles are intended for very specific purposes. The lack of flexibility in these plans makes them entirely irrelevant for an individual who has a different saving goal. While it may be beneficial to encourage individuals to save, the government should not be encouraging or subsidizing one type of saving over another because doing so requires making assumptions and judgements on what is a worthwhile saving goal and this limits individual liberty. Third, these accounts involve some degree of risk because if funds saved are used for a purpose other than the one for which the account is intended, individuals can incur withdrawal penalties.

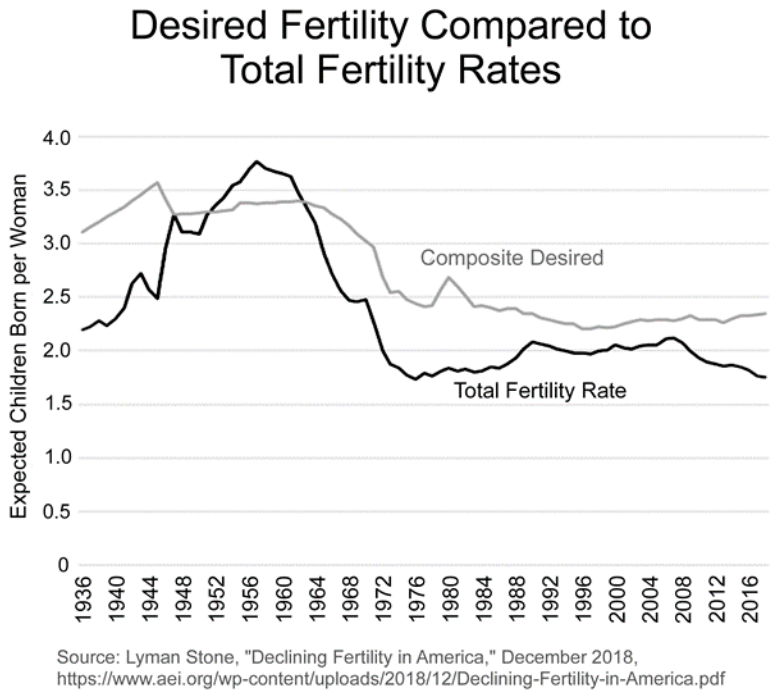
Saving shouldn't be so hard, and the government shouldn't reward some savers and not others. An alternative saving vehicle that could address many of the limitations of currently tax-preferred saving vehicles is a universal savings account (USAs). These accounts have key characteristics that make them a promising option for more types of people, saving for multiple types of goals.

- *Impartiality* – They fix the issue of double taxation at the Federal level and provide a neutral tax treatment for all purposes instead of certain government-favored purposes.
- *Flexibility* – Unlike current tax-preferred saving vehicles, USAs can accommodate changing goals over the life cycle, reducing the amount of extra paperwork.
- *Portability* – Unlike many tax-preferred saving vehicles, USAs are not tied to an employer but rather to a person, allowing an individual to change jobs more easily and still hold on to his savings account.
- *Accessibility* – For those who don't have access to savings plans through their employers, USAs would give these individuals access.

WORK-LIFE BALANCE

In addition to declining fertility rates, there is some evidence that women are not having as many children as they would like to have. In a report written by Lyman Stone for the American Enterprise Institute (AEI), Stone shows a summary measure of desired fertility among women of childbearing age alongside total fertility rates (which is an estimate of lifetime fertility based on projections of current fertility trends).[128] The graph is reproduced below in Figure 2-4, and shows that since the 1960s, women's desired fertility has been consistently higher than the total fertility rate.

Figure 2-4



The finding that fertility levels are lower than reported desired fertility and intended fertility[129] suggests that barriers to childbearing may exist that prevent women from fulfilling their fertility ideals and goals. While some have suggested that fertility declines are driven by more women choosing to have a "child-free" life,[130] survey data shows that no matter how women are asked about their fertility plans, the results consistently point in the direction of ideally wanting more children than they plan to have or actually have.[131] This suggests that there are other factors leading women to have fewer children than their ideal number.

Research suggests that one factor may be challenges associated with maintaining a work-life balance. The past few decades have seen important cultural and economic shifts as women have pursued more education and joined the workforce in greater

numbers. Whereas in the past, childbirth and childrearing may have led women to drop out of the labor force either temporarily or permanently, women today are frequently committed to building and sustaining a professional career. However, the extent of family and community support has also changed over time, making it more difficult for professional mothers today to balance work and home.

The JEC Chairman's staff has examined the breakdown of associational life, in other words, the web of social relationships that a person maintains through family, community, the workplace, and religious congregation. In an early report entitled "What We Do Together: The State of Associational Life in America," the Social Capital Project documents long-term trends in American associational life and finds that across the domains of family, religion, work, and community, people today are less connected and supported than those in the past. For example, fewer individuals today live in families and births to single mothers have nearly quadrupled since 1970.[132] Fewer are raised in a religious tradition, and confidence in organized religion has taken a hit. Even at the broader community level, there are some concerning findings including time spent with neighbors declining over time and overall trust in institutions declining as well. Furthermore, among prime working age women, hours at work have risen by nearly 30 percent since 1970 (while men's hours have fallen by roughly 10 percent). Taken together, these findings suggest that traditional sources of family and community support have declined in importance, and combined with the fact that now more women are spending more time at work, the effects on family life are likely significant.

These trends in associational life may have implications for family affordability and work-life balance. The link between work-life balance and family affordability is more nuanced than the roles of

housing, higher education, and childcare because the costs in question are not all pecuniary. The other factors discussed earlier in this chapter are all relevant to family affordability because they directly enter into a family's budget constraint. However, the effects of work-life balance enter the story mostly through psychological rather than pecuniary costs. An awareness that challenges exist in balancing work and family may deter individuals from having children until they feel better equipped to handle them. As young adults move away from home to pursue more promising jobs in bigger cities, and as family and community support becomes harder to maintain, the effects of these costs can be felt more strongly, further exacerbating the issue.

In light of these trends, reasonable policies that mitigate some of the difficulties in work-life balance may have a positive effect on family affordability and family formation. For example, addressing the challenge of limited time is important because time devoted to work is necessarily not devoted to children and family and vice versa.

Chairman Lee has introduced legislation that could assist with this challenge. The *Working Families Flexibility Act* proposes reforming Federal labor laws that restrict the use of comp time in the private sector. This legislation would help workers improve work-life balance by allowing private-sector employers to offer all employees working overtime the choice between monetary compensation or time off. Policies like these that make reasonable but helpful changes to reduce work-life challenges may be instrumental in the longer term in enabling parents to be successful both at work and at home. Such policies can reduce the long-term costs of childbearing and child-rearing, ease family affordability, and may enable parents to reach their fertility goals.

Furthermore, Chairman Lee has introduced legislation that would allow new parents to take up to three months of paid family leave,

mitigating the upfront costs of childbearing and enabling new parents to bond with their babies. The *Child Rearing and Development Leave Empowerment (CRADLE) Act* proposes offering natural and adoptive parents one to three months of paid family leave, paid for by "borrowing" from Social Security contributions. In other words, a new parent could take off three months of paid leave today to bond with his or her child, and then delay activating social security benefits for six months at retirement. Congressional Republicans have proposed additional paid leave ideas, as well, including Senator Cassidy and Senator Sinema's proposal to provide new parents with a Child Tax Credit (CTC) advance that could be used to replace income while new parents take leave from work.

RECOMMENDATIONS

- Extend or make permanent the limits on the itemized deductions for mortgage interest and state and local taxes specified in TCJA.
- Encourage residential zoning reform for improved housing affordability.
- Income-share agreements may provide another option for students to finance their education.
- Consider tying Federal funding to students' timely college graduation.
- Improve access to, and the quality of, non-college alternatives.
- Create flexible USAs to improve American's ability to save.

- Pass the *Working Families Flexibility Act,* which will improve work-life balance by allowing private-sector employers to offer all employees working overtime the choice between monetary compensation or time off.

- Pass the *CRADLE Act* to mitigate the early costs of parenthood and enable parents to bond with their babies.

CHAPTER 3: ADDRESSING DEATHS OF DESPAIR

OVERVIEW

As Chapter 7 of the ERP begins, the opioid crisis "poses a major threat to the U.S. economy and America's public health," reducing overall life expectancy and leading all other causes of death for Americans under age 50.[133] The opioid crisis claimed over 400,000 lives from 1999 to 2018, and opioids are now the most common type of drug involved in drug overdose deaths. The Centers for Disease Control and Prevention (CDC) reports that over 750,000 Americans died of a drug overdose between 1999 and 2018.[134] For a sense of the scale of the crisis relative to historical data, roughly 250,000 Americans died of a drug overdose in the thirty years preceding 1999.[135]

In 2016, then-JEC Vice Chairman Lee's Social Capital Project covered opioid overdose deaths extensively, finding that the oversupply and abuse of legal prescription pain relievers fueled the current crisis, which increasingly shifted toward illegally obtained opioids.[136] Our previous research found that opioid-related deaths have been among younger demographic groups, white, single or divorced, and with comparatively less formal education.[137] Our examination of the data left us concerned that the opioid crisis would affect the next generation in the coming years. We review that data here and in the context of other worrisome trends associated with "deaths of despair"—deaths from suicide, drug overdose, and alcohol-related disease and liver cirrhosis. Ultimately, the Administration's continued focus on reducing the supply of increasingly lethal illicit drugs and support for evidence-based interventions can help mitigate the worst outcomes of the opioid crisis.

RECENT TRENDS IN OPIOID AND OTHER DRUG OVERDOSES

In reviewing the data, we find that opioid overdose deaths continue to rise at an alarming rate, though the rate slowed in recent years. The CEA estimated from January 2017 to May 2019 "there were 37,750 fewer opioid overdose deaths—representing an economic cost savings of over $397 billion—relative to the number of deaths expected based on previous trends."[138]

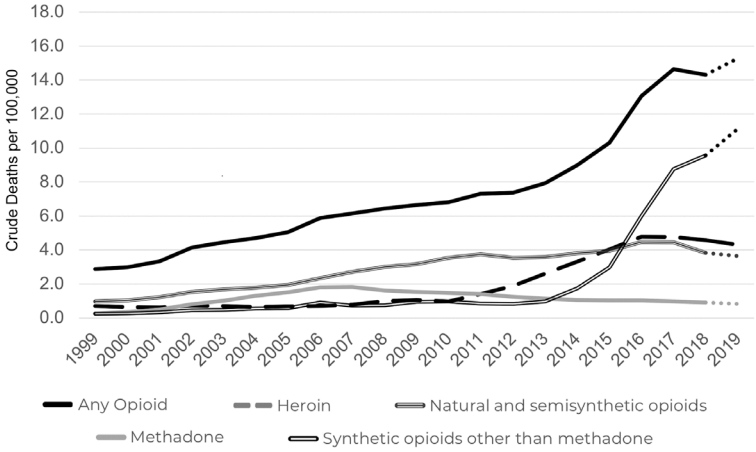
As the CDC documents, the opioid crisis affected the U.S. through three specific waves, beginning with prescription pain killers in the 1990s, followed by a wave of deaths from heroin beginning in 2010, which fell for the first time in 2018.[139] Placing opioid overdoses in the context of all drug overdoses, opioid overdose deaths comprised nearly 70 percent (46,802) of all drug overdoses (67,367) in 2018.[140]

Early this year, the CDC reported death rates from drugs of all types (except for synthetic opioids other than methadone, cocaine, and psychostimulants with abuse potential) were down from 2017 overall and fell in 14 states and DC. In fact, breaking the upward trend, both the age-adjusted rate of drug overdose deaths (-4.6 percent) and the count of drug overdose deaths (-4.1 percent) were down in 2018 compared to 2017.[141]

Provisional death counts from the CDC through October 2019 show a predicted increase of 1.2 percent in drug overdose deaths over the previous 12 months, but reported cases show a perceptible decline of a tenth.[142] The provisional death counts as measured per 100,000 population suggest a stall in growth of opioid overdose deaths thus far in the data available through 2019. Broken down by opioid drug class in the provisional counts, deaths from semi-synthetic opioids including prescription painkillers and heroin continue to decline, but synthetic opioids like fentanyl continue to rise over the same period, as shown in Figure 3-1.

Figure 3-1

Crude Opioid Overdose Death Rates, by Type of Opioid: 1999–2019



Source: Provisional Drug Overdose Death Counts, CDC, https://www.cdc.gov/nchs/nvss/vsrr/drug-overdose-data.htm. Data Brief 356. Drug Overdose Deaths in the United States, 1999–2018, CDC, https://www.cdc.gov/nchs/data/databriefs/db356_tables-508.pdf#3. Drug Overdose Deaths in the United States, 1999–2018 CDC Bridge-Race Population Data used to calculate rates 1999-2018, CDC WONDER, https://wonder.cdc.gov/Bridged-Race-v2018.HTML. Census estimates the population was 328,239,523 in 2019. "2019 U.S. Population Estimates Continue to Show the Nation's Growth Is Slowing," Census Bureau, December 30, 2019, https://www.census.gov/newsroom/press-releases/2019/popest-nation.html.

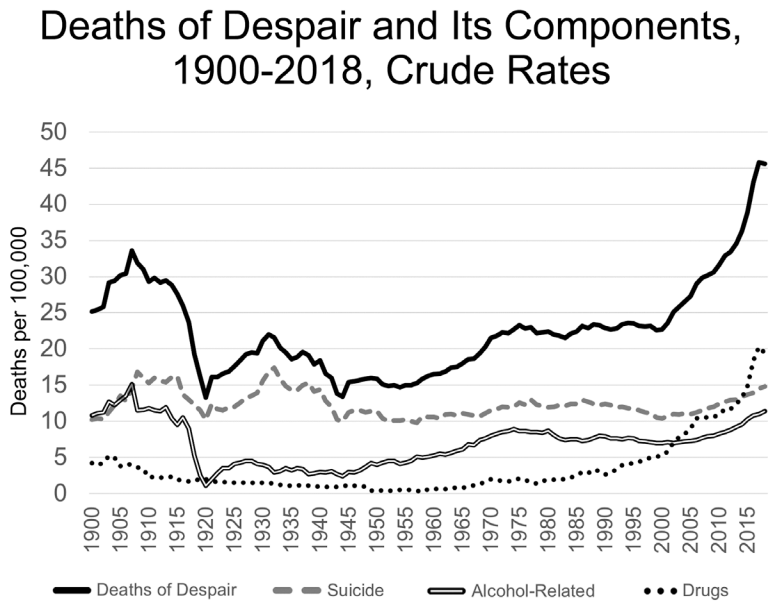
Even in the latest available data, we can see the third wave, driven by synthetic opioids like fentanyl, continues to ravage the country since its precipitous rise around 2013. In 2018, over two-thirds of opioid overdose deaths involved synthetic opioids like fentanyl.[143]

Most of the Administration's efforts center on restriction of supply of illicit drugs and access to evidence-based interventions for Americans in the throes of opioid addiction. The Chairman's staff applauds the Administration's efforts and focus on improving prevention and treatment amid broader academic discussions of opioid overdoses in the context of "deaths of despair."

REVIEW OF LONG-TERM TRENDS IN DEATHS OF DESPAIR

Deaths of despair, defined by Anne Case and Angus Deaton as deaths by suicide, drug and alcohol poisoning, and alcoholic liver disease and cirrhosis rose dramatically since the turn of the century. In our review of the long-term trends of "deaths of despair," we found that mortality from these collective deaths rose to unprecedented levels since the beginning of the 20th century.

Figure 3-2

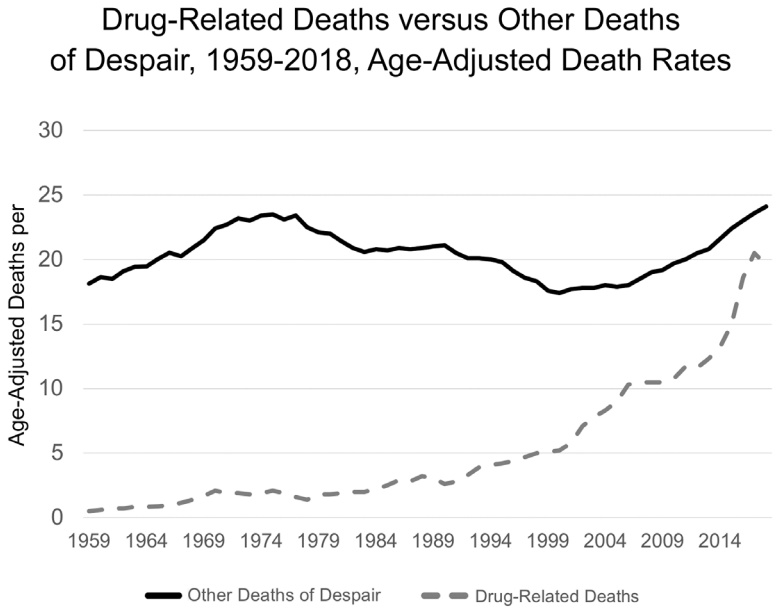


Source: Social Capital Project analyses of CDC data. For details, see https://www.jec.senate.gov/public/index.cfm/republicans/methodological-appendix-to-long-term-trends-in-deaths-of-despair/

As shown in Figure 3-2, deaths from drug overdoses have been rising since the 1950s, but took off around 2000, led by opioids. Deaths from suicide and alcohol, which notably trend closely with one another over the last half of the 20th century, also began rising to abnormally high levels around 2000. Excluding the dramatic rise in drug overdose deaths, "deaths of despair" would be higher than at any point in the past century. Nonetheless, accounting for

the changing age distribution over time (known as age adjusting), the data show that suicide and alcohol mortality today is about the same as it was in the mid-1970s. Similarly, on an age-adjusted basis, deaths of despair excluding drug-related deaths was essentially the same in 2018 as in 1975, as shown in Figure 3-3.

Figure 3-3



Source: Social Capital Project analyses of CDC data. For details, see https://www.jec.senate.gov/public/index.cfm/republicans/methodological-appendix-to-long-term-trends-in-deaths-of-despair/

In fact, deaths of despair declined in 2018 for the first time in the 21st century, led by the decline in drug overdose deaths. After rising unyieldingly from 24.9 per 100,000 in 1998, deaths of despair declined by every measure. From 2017 to 2018, absolute number of deaths fell, as did the crude and age-adjusted rates, the latter of which ticked down from 45.8 to 45.3 per 100,000.[144] Though the decline in deaths of despair may be temporary, we hope that it is a sustainable change in direction. However, among the three subcomponents of deaths of despair, alcohol-related

deaths and suicides ticked up, partially offsetting the decline in drug overdose deaths.

POLICYMAKERS ARE RIGHT TO FOCUS ON DRUG OVERDOSES

Importantly, drug-related mortality does not trend with the other two subcomponents of deaths of despair. One possible explanation is that while suicide and alcohol-related mortality trends may reflect a desire "to numb or end despair" indicative of a "demand-side" problem, trends in drug-related mortality could also reflect a "supply-side" problem.[145]

We concluded in our research that we still have a long way to go in explaining rising deaths of despair and its implications for public policy:

> *...the proliferation of a uniquely addictive and deadly class of drugs has meant that the* supply *of despair relief has become more prevalent and more lethal, which would have increased mortality even absent an increase in despair. Given the lack of correspondence between trends in economic and social indicators, unhappiness, loneliness, and deaths of "despair," it may be more productive for policymakers to focus on the overdose epidemic than on despair per se.*[146]

Supply of more lethal drugs led to more deaths, and would have done so even absent a rise in despair. The ERP lays out the case that lower drug prices for prescription pain killers helped ignite the crisis, and the supply of illicit opioids sustained it.[147] In addition to preventative policies, the ERP highlights steps that the Administration took on evidence-based interventions. These include policies to expand access to naloxone for opioid overdoses

as well as to a variety of medication-assisted treatment and support for Americans currently struggling with opioid addiction.[148]

As mentioned, there is tentative good news within the CDC's provisional data on drug overdose deaths, suggesting that the rise in overall drug overdoses stalled, and the rise in deaths from synthetic opioids like fentanyl is slowing. The ERP elaborates on a number of policy solutions that the Administration is focusing on in order to restrict supply of illicit drugs, including efforts to prevent flow through international shipments and U.S. ports of entry.[149]

Reflecting a modesty appropriate for such a complex and intractable crisis, the CEA notes that the Administration "is working to determine the underlying causes of the opioid crisis so that it can implement effective solutions."[150] In the meantime, policymakers and the Administration can focus policy solutions on reducing "supply-side" issues, including reducing U.S. entry of illicit opioids, which continue to fuel the opioid crisis. Together with state and Federal efforts, community efforts continue to prove critical in the prevention of opioid misuse, the reduction of demand through education of the dangers of opioids, and life-saving support for those with opioid use disorders.

RECOMMENDATIONS

The JEC Chairman's staff recommends that Congress and the Administration:

- Concentrate on the overdose epidemic rather than on despair per se.

- Continue to focus on limiting U.S. entry of illicit lethal addictive substances.

CHAPTER 4: THE ECONOMIC OUTLOOK

OVERVIEW

The year 2020 will certainly be remembered as a difficult one for many Americans. Millions of Americans lost their jobs, and over 200,000 lost their lives as COVID-19 created an unexpected economic crisis and public health emergency in the United States.

Prior to the hardship brought on by COVID-19, the American economy was on its way to a robust recovery. In his opening statement at the JEC hearing on "The Economic Outlook" held in November of 2019, Chairman Lee highlighted the economy's progress:

> *Our economy has finally recovered from the financial crisis of 2008. Unemployment reached a 50-year low of 3.5 percent in September and most recently stood at 3.6 percent. The share of working age adults with a job has returned to pre-crisis levels.*[151]

Chapter 1 of the *Report* summarizes the positive economic trends experienced by the U.S. economy in 2019. Possibly due in part to the passage of the *Tax Cuts and Jobs Act* (TCJA) in 2017, several economic indicators grew at faster rates in 2019 than expected.

For example, real gross domestic product (GDP) grew at an annual rate of 2.3 percent, compared to lower growth projections in 2016 (the Federal Open Market Committee [FOMC] predicted that real GDP growth in 2019 would be 1.8 percent, and the Congressional Budget Office [CBO] predicted that growth would be 1.6 percent).[152] The economic growth experienced by the U.S.

economy over the course of the current Administration is especially noteworthy considering the predictions that some economists made regarding secular stagnation and the U.S. economic growth slowdown becoming the "new normal."

In addition to strong economic growth, the *Report* notes labor productivity growth was strong in 2019.[153] As the *Report* remarks, this may be an indirect effect of TCJA, which reduced the cost of capital and may have led to capital deepening. In other words, as capital investment increases, capital services per worker rises leading to an increase in labor productivity.[154]

Moreover, the labor market in 2019 was strong with the number of jobs added each month often exceeding expectations, and wages and income also rose in the years since TCJA.[155] Examining the period of time spanning from the fourth quarter of 2017 through the fourth quarter of 2019, growth of real disposable personal income per household was higher than the average annual growth rate from 2009 to 2016.[156] The TCJA may have been directly responsible for some of this growth because of the increased standard deduction, lower marginal tax rates, and the doubling of the CTC, all of which were expected to boost real disposable income.[157]

Echoing the findings of the CEA, in his testimony before the JEC, Jerome Powell, Chair of Governors of the Federal Reserve System, remarked that:

> *Looking ahead, my colleagues and I see a sustained expansion of economic activity, a strong labor market, and inflation near our symmetric 2 percent objective as most likely. This favorable baseline partly reflects the policy adjustments that we have made to provide support for the economy.*

> *However, noteworthy risks to this outlook remain.*[158]

Chapter 9 of the *Report* also presents a positive economic outlook for the coming decade:

> *Overall, assuming full implementation of the Trump Administration's economic policy agenda, we project real U.S. economic output to grow at an average annual rate of 2.9 percent over the budget window from 2019 to 2030. During that time, inflation is expected to settle at a 2.0 percent fourth-quarter-over-fourth-quarter rate, and the unemployment rate is expected to remain at or below an annual average rate of 4.0 percent.*[159]

In light of the recent pandemic and its effects on employment and most aspects of associational life, some of this optimism needs to be reassessed. Unfortunately, despite great strides forward in 2019, the recent global coronavirus pandemic has halted and eroded some of the recent economic progress.

As we consider some of the consequences of COVID-19 and the effects that these shifts have had on the macro-economy and individual well-being, some uplifting evidence does emerge amongst the gloomy economic trends. Looking towards the future, the strong pre-pandemic economy should support a recovery, and in the coming months, rebuilding the American economy and civil society should be a priority.

THE COVID-19 PANDEMIC AND ITS EFFECTS ON FAMILIES AND THE BROADER ECONOMY

Employment

The unexpected global coronavirus pandemic has thrown a wrench in the economy's largest expansion on record. As states implemented stay-at-home orders and shut down all but essential businesses in order to contain the spread of the virus, some Americans were fortunate enough to be able to easily transition to a remote-work model, but many American families and businesses, particularly those in the service industry, were not able to adapt.

In a series of monthly reports, the Bureau of Labor Statistics (BLS) has summarized the effects of the coronavirus pandemic on the employment situation. In the March 2020 report, early effects of the pandemic could already be seen. For example, total nonfarm payroll employment declined by 701,000 jobs (later corrected to 1.4 million), about two thirds of which were in leisure and hospitality.[160]

Moreover, unemployment jumped by 0.9 percentage points to 4.4 percent (the largest over-the-month increase since January 1975) representing an increase of 1.4 million unemployed individuals.[161] The unemployment rate increased among all major working groups, demonstrating widespread negative effects of COVID-19.[162]

The number of individuals working part-time because their hours were reduced or because they were not able to find full-time work also increased in March.[163]

In April 2020, the negative effects of COVID-19 peaked as nonfarm payroll employment fell by 20.5 million jobs (later corrected to 20.7 million), and the unemployment rate soared by

10.3 percentage points to 14.7 percent (the highest rate and largest over-the-month increase since at least 1948 when the BLS began tracking this series).[164]

By June 2020, after states had begun efforts to reopen safely and resume economic activity, the labor market improved slightly; nonfarm payroll employment increased by 4.8 million jobs and the unemployment rate declined to 11.1 percent.[165]

The recent data available for September 2020, shows unemployment declining for the fifth consecutive month.[166] However, numbers are still higher than they had been in February 2020, pre-COVID-19, with the number of unemployed people up 6.8 million (or 4.4 percentage points) since pre-COVID-19.[167]

Public Opinion on the Economic Outlook

In spite of the worrisome employment situation, many Americans have managed to stay positive. When asked about economic trends over the coming months, individuals surveyed in April (at the peak of the negative employment effects) mostly report optimism; 48 percent of Americans predicted economic growth would go up, while 42 percent predicted growth would go down.[168]

Evaluations of the current U.S. economy vary by political party affiliation with Republicans being much more optimistic about the state of the economy than Independents and Democrats. In a Gallup survey, in which individuals were polled in May and again in June to assess changes as the economy began to reopen and recover, individuals were asked whether they think the U.S. economy is growing, slowing down, in a recession, or in an economic depression. The results reveal a significant divide along party lines. By mid-June, 45 percent of Republicans believed the economy to be growing (up from 7 percent of Republicans in mid-May) while only 2 percent of Democrats (and 18 percent of

Independents) believed the economy to be growing at that time.[169] Moreover, only 8 percent of Republicans believed the economy to be in a depression in mid-June, compared to 28 percent of Democrats.[170]

In September, 25 percent of individuals surveyed (both Republicans and Democrats) believed the economy to be growing, compared to only 3 percent in late March.[171]

Furthermore, Americans are generally optimistic about their personal finances, and were more optimistic in June 2020 than they were in April 2020.[172] In fact, the percentage of individuals reporting their financial situation is getting better is highest for the lowest income families. In June 2020, 38 percent of households earning less than $40,000 a year reported an improvement in their financial situation, an 11 percentage-point increase from April 2020. In comparison, 43 percent of households earning between $40,000 and $99,999, and 45 percent of households earning $100,000 reported such improvements (a 3 and 6 percentage-point increase, respectively).[173]

These trends may be due in part to relief measures passed by Congress. Research from the JEC Chairman's staff finds that personal income rose in the second quarter of 2020 due to transfer receipts rising following the passage of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and tax collections falling.[174]

In March 2020, Congress passed the *CARES Act*, providing $2 trillion in economic relief to American workers, families, and small businesses. One of the provisions of the *CARES Act* was to pay out up to $1,200 per adult whose household income was less than $99,000 or less than $198,000 for joint filers, and $500 per child under age 17.[175]

Congress also expanded unemployment benefits to replace more income for more people. For example, the duration of standard unemployment benefits was extended from 26 weeks to 39 weeks.[176] Also, a new expanded unemployment insurance program was added to cover individuals that would not typically be covered under standard unemployment. For example, contractors, self-employed individuals, those with insufficient work history or who are only willing to work part-time, and other categories of individuals who typically would not qualify for unemployment were able to receive unemployment benefits through this program which was set to expire at the end of July 2020.

Through this program, individuals who experienced loss of work due to COVID-19 received $600 per week (in addition to regular unemployment payments for those who lost their jobs and qualified for standard unemployment as well). This program not only allowed Americans to pay their bills, but in many cases, paid individuals an overall replacement wage higher than the wages they had earned at work, possibly creating a disincentive to work in some instances.

Public opinion on the economic outlook suggests that while the coronavirus pandemic may have severely affected the economy, many Americans are generally upbeat about the future of the economy and their own financial situation.

Wellbeing

While economic trends provide one way of assessing the state of the American economy and society, another important piece of the story is captured by reported well-being. In other words, while economic trends reflect what's happening at the macro level, trends in well-being reveal the extent of the impact of these trends on individuals and families.

As places of worship closed and community gatherings were banned, the pandemic brought important aspects of social life to an abrupt halt. Nevertheless, survey results report that in spite of the social upheaval, most Americans report feeling no change in connectedness. A Gallup survey finds that overall, 54 percent of individuals report no change in their connectedness to family and friends over the past week (at the end of March). On the other hand, 28 percent report feeling less connected and 18 percent report feeling more connected.[177] More recent responses from early May are more or less stable, with a slight increase in the number of individuals who report feelings less connected (3 percentage points) and a corresponding decrease in those reporting feeling more connected.[178]

In fact, survey results from late March show that when asked whether they felt specific feelings during much of the previous day, 67 percent report feeling happiness and 61 percent report enjoyment.[179] Feelings of happiness do not seem to exclude feelings of stress and worry, however: 60 percent report feeling stress and 58 percent report worry.[180] More severe negative emotions such as sadness, anger, and loneliness are reported by 32 percent, 24 percent, and 24 percent, respectively.[181]

Examining more recent results from this survey, individuals are reporting higher rates of positive feelings in September; 66 percent report feeling enjoyment (up 5 percentage points from late March), and 69 percent report feeling happiness (up 2 percentage points).[182]

By September, individuals are also less likely to experience some negative feelings.[183] For example, the percentage of individuals reporting feeling worried declined 13 percentage points to 45 percent.[184] Furthermore, those reporting feeling stressed, bored, sad, and lonely declined by 9, 10, 5, and 2 percentage points, respectively.[185] The higher rates of positive emotions and lower

rates of negative emotions are encouraging and demonstrate Americans' resilience in the face of hardship.

Interestingly, households at the bottom of the income distribution report much higher rates of loneliness (41 percent compared to 18 percent for households at the top).[186]

Furthermore, married individuals and those with children seem to be faring better during these difficult times: 72 percent of married individuals compared to 62 percent of unmarried individuals report happiness.[187] Similarly, 65 percent of married individuals but only 56 percent of unmarried individuals report enjoyment.[188] These large differences may be due in part to married individuals having a partner with whom to quarantine, while many unmarried individuals may quarantine alone or lack the comparative social support marriage can provide.

Comparing parents with children under 18 in their household to those without children under 18 also shows an interesting difference in reported positive feelings. While 76 percent of parents with children under 18 report happiness (64 percent reporting enjoyment), only 64 percent of those without children under 18 report happiness (59 percent reporting enjoyment).[189]

Community Support

The economic outlook is bolstered by the relief efforts of individuals and organizations aiding their communities. The pandemic has highlighted the importance of social capital as communities come together to support each other and their medical workers. From large companies to grassroot organizations and individuals, heartwarming stories are a reminder that kindness is still a fundamental American value.

For example, individuals with sewing skills have banded together to sew masks for medical workers.[190] Designers and clothing

companies have redirected some production towards manufacturing masks.[191] Within many communities, leadership has organized shopping services for the elderly and for immunocompromised individuals.

While volunteering rates have been declining in recent years (particularly for middle-income households earning between $40,000 and $99,999[192]) in an April 2020 survey, Gallup finds that roughly 29 percent of all U.S. adults have done some charitable activity to assist with coronavirus relief. Wealthier households earning over $100,000 annually are the most likely to contribute to coronavirus relief efforts, with 43 percent in this category reporting some charitable activity.[193]

On the frontlines of the battle against coronavirus, medical professionals are also stepping up and volunteering their services. For example, in March 2020, New York Governor Andrew Cuomo announced that over 76,000 healthcare professionals had volunteered to help New York hospitals fight the virus.[194] Many more volunteers have signed up since.

Religious leaders and organizations have also mobilized humanitarian efforts in response to the coronavirus pandemic. For example, the Church of Jesus Christ of Latter-day Saints has been actively helping individuals and families in its own communities as well as in other communities in what it has called the "largest humanitarian effort in its history."[195] Some of the relief efforts include sending millions of face masks to medical workers and truckloads of food to people around the country and the world.[196]

Charitable Giving

As Americans work towards a brighter future, there are policy changes that Congress can enact to facilitate a strong economic

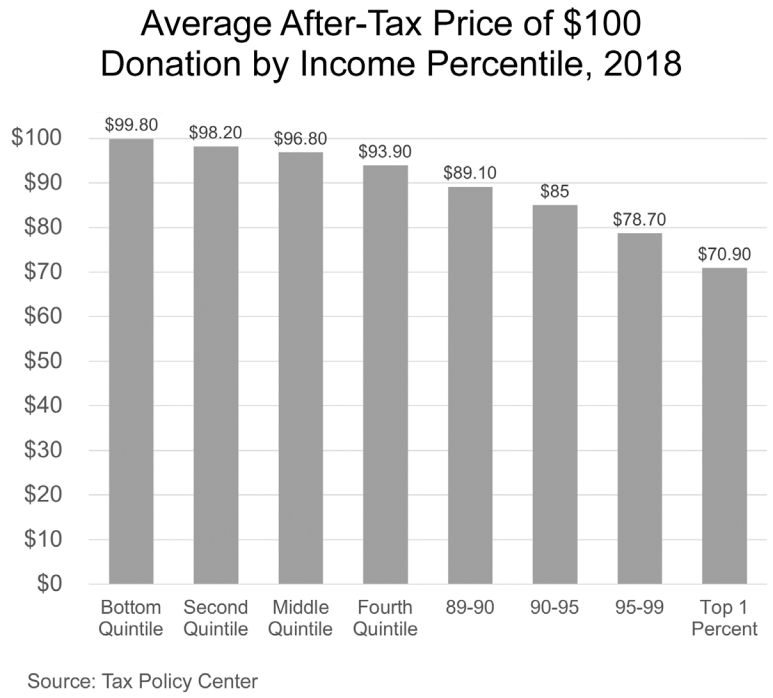
recovery. For example, supporting charitable giving at a time when many families need support would be helpful.

In a 2019 report, JEC Chairman's staff examined trends in charitable giving.[197] Although charitable giving has been down for the past few years, overall, Americans are giving billions of dollars more today than they were in 1978. However, even as the amount donated has increased significantly over time, the percent of households giving has declined from 66 percent in 2000 to 56 percent in 2014.

The decline has been more pronounced for non-itemizers than for itemizers, suggesting that the charitable deduction may play a role in the propensity to give. Because of the correlation between income and itemizing status, effectively this means a greater decline in giving among low- and middle-income groups, and this has implications for the well-being of civil society.

The charitable deduction allows itemizers to deduct the value of charitable contributions to tax-exempt organizations, up to a cap of 60 percent of adjusted gross income (AGI). Because itemizers tend to have higher incomes, the tax benefits accrue largely to higher income households, and the average after-tax price of making a charitable donation declines noticeably with income. Figure 4-1, reproduced from the JEC report, demonstrates this problem.

Figure 4-1



As the JEC report states clearly, this is a problem because:

> *Giving ought to be safeguarded against taxation among lower-class Americans as much as among upper-class Americans.*[198]

In other words, this is not a question of subsidizing charitable giving as much as noting (and correcting) an unequal treatment of charitable donations for high- and low-income Americans.

To address this shortcoming in the existing tax code, the JEC Chairman's staff supports reforming the charitable deduction by moving the deduction "above the line," making it available to both itemizers and non-itemizers.

Chairman Lee held a hearing on "Supporting Charitable Giving during the COVID-19 Crisis," during which Senators Lankford

and Shaheen testified regarding the bipartisan work they have been doing together with Chairman Lee, Senator Klobuchar, and Senator Coons, to boost giving through the tax code. In their testimonies, both Senators Lankford and Shaheen advocated for increasing the current $300 above-the-line deduction for cash gifts included in the *CARES Act* to $4,000 for individuals and $8,000 for married filers.[199]

As Senator Lankford explains in his testimony:

> *This is a straightforward way to incentivize giving for taxpayers who take the standard deduction. This would really help our middle to low income taxpayers who want to give. This policy rewards that generosity which ultimately benefits our churches and charities who turn those gifts into met needs.*[200]

Indeed, encouraging giving at a time like this, when the survival of many will rely on the generosity of their neighbors and friends, is of critical importance.

CONCLUSION

While the economic outlook looks less bright than before the pandemic, there are reasons to remain optimistic.

The strong economic growth we observed in previous years may help support a recovery. Unemployment rates are declining and technological progress enables many workers to perform their work remotely, allowing some economic activity to continue relatively unaffected. Moreover, families are spending more time together than ever before, allowing them to build stronger relationships.

As American families prepare to face the recovery head on, Congress can help facilitate philanthropic and charitable efforts by reforming the charitable deduction to support charitable giving.

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VIEWS OF VICE CHAIR DONALD S. BEYER, JR.

Introductory Letter

The U.S. Joint Economic Committee is required by statute to provide an annual written response to *The Economic Report of the President*, an assessment of the economy and presentation of the Administration's economic policies by the Council of Economic Advisers (CEA).

However, soon after the *Report* was released in February, it was made irrelevant by the worst public health crisis in more than a century and the sharpest economic downturn since the Great Depression. Because of these exceptional circumstances, our analysis looks both at the President's economic record in the years before publication of the *Report* and in the tragic months afterward.

Contrary to the President's claims, we find that his economic record before the coronavirus was unspectacular. However, his economic legacy will be defined by his failure to use the power of the presidency to attempt to contain the coronavirus, instead fueling its spread and causing extensive and long-lasting economic damage. Because of these catastrophic mistakes, the President's economic record will be one of the worst among all U.S. presidents.

We focus attention on the Trump Administration's failure to use economic policy to mitigate the human suffering caused by the

coronavirus recession. For months he blocked efforts to extend enhanced unemployment benefits, threatening to leave millions of American families without income just after Christmas. He refused to provide critical aid to state and local governments, despite compelling historical evidence that withholding it can prolong a recession. Instead, he called for a large payroll tax cut that would have provided the biggest benefit to the highest wage earners and delivered nothing to millions of Americans who had lost their jobs.

The pandemic has laid bare one of the greatest challenges of our time, the entrenched economic inequality dividing Americans by race and class. The working poor, immigrants, Black Americans, Hispanic Americans and Native Americans have been hit especially hard by the pandemic; they are more likely to contract COVID-19 or suffer extreme economic hardship as a result of the coronavirus recession. The President not only has failed to lessen these divisions, he has greatly worsened them and left many Americans scarred.

The pandemic also has made it impossible to ignore shortcomings in U.S. policies to support workers and families, but the President has refused even to recognize their importance. Inadequate paid sick leave during a pandemic forces Americans to go to work sick and risk infecting others, yet the President weakened sick leave provisions in coronavirus relief legislation.[1] The closure of child care centers and decreased supply of affordable child care during the pandemic has forced parents, disproportionately women, to work less or drop out of the labor force, yet the President has taken no action to help them.[2] And despite the fact that the share of Americans reporting symptoms of depressive and/or anxiety disorder has tripled in the past year, the President has ignored their illness and offered no plans to address it.[3]

Our analysis starts at the beginning of the Trump Administration, when the President inherited a strong economy from Barack Obama, with steady GDP growth, unemployment at only 4.7 percent and 76 consecutive months of job growth.[4] The President claimed that the economy was "in a rather dismal state" and that he had performed a historic turnaround — much as he had boasted that he was a self-made man while inheriting more than $400 million from his father.[5]

In the years before the pandemic, the President's two most important economic policies provided few benefits at a very high cost. The 2017 tax cuts did little to lift the economy beyond existing trends, but increased inequality and will leave almost $2 trillion in federal debt over 10 years.[6] The trade war with China failed to deliver the promised "blue-collar boom" and instead cost hundreds of thousands of U.S. jobs. While the economy in the period before the pandemic remained strong, this was not due to the President's policies but resulted from the tailwinds of the Obama expansion and the Federal Reserve's far-sighted decision to hold interest rates low.[7]

The President casts himself and his economic record as victims of the coronavirus pandemic and resulting recession. However, he deserves infinitely more blame for these crises than any other American. He ignored the advice of the nation's top economists, who said the number one priority for the economy was to contain the coronavirus. He did exactly the opposite of what the nation's leading public health experts recommended — restricting testing, mocking those who wore masks and calling on supporters to attend political rallies that became super-spreading events. These blunders substantially worsened the economic crisis, with the effective unemployment rate reaching almost 20 percent.[8]

The President's most tragic error was his effort to save his sinking economic record by pressuring governors to re-open their

economies.[9] Public health officials warned that prematurely lifting measures to contain the coronavirus would lead to an explosion of cases and deaths, while the overwhelming majority of top economists said that reopening too soon "will lead to greater total economic damage."[10] The President again ignored their advice, squandering the immense personal and economic sacrifices Americans had made during the lockdowns.

In recent months, leading economic indicators have improved from abysmal to mediocre. However, the economy is far weaker than the numbers suggest. For example, the unemployment rate in November was 6.7 percent — two percentage points higher than when the President took office.[11] However, this does not reflect the fact that since February 5 million Americans have given up looking for work and have left the labor force.[12] If they were counted as unemployed, the unemployment rate would be approximately three percentage points higher.[13] Likewise, the recent spike in third quarter GDP growth is underwhelming because it follows a historic drop in the previous quarter — the economy remains substantially smaller than it was at the end of 2019.[14]

President Trump leaves to his successor an economy that is in far worse condition than the one he inherited. He will be the first president in the modern era to preside over a net loss in jobs, with the economy losing approximately 3 million jobs since he was inaugurated.[15] More than 700,000 Americans have filed for unemployment benefits every week since mid-March, and recent evidence suggests that the labor market may be worsening.[16]

The most ominous sign for the economy is the tragic fact that the number of new U.S. coronavirus cases is exploding, largely a result of the President's refusal to take responsibility for the federal coronavirus response and reckless actions he took that accelerated the spread of the virus. The number of U.S. deaths

from COVID-19 already has exceeded the number of American lives lost in combat during World War II, and the numbers are climbing rapidly.[17] As a result, the coronavirus pandemic now is a greater threat to the U.S. economy than in the spring, when it drove unemployment to the highest levels since the Great Depression.

This will be President Trump's economic legacy.

DONALD S. BEYER, JR.

VICE CHAIR

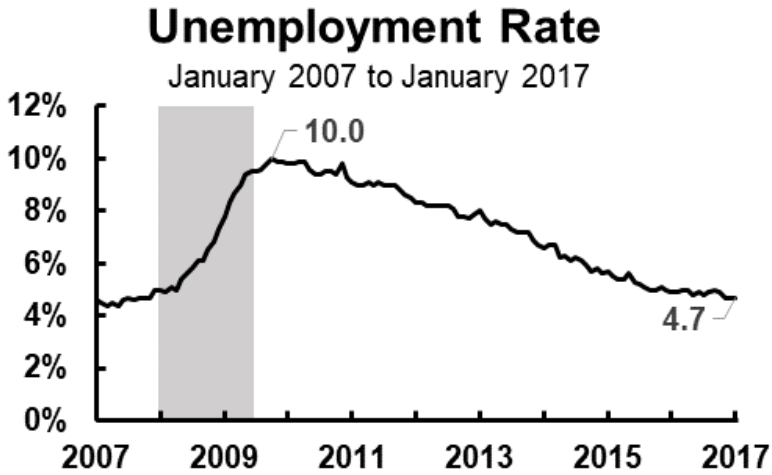
CHAPTER 1: PRESIDENT TRUMP'S RECORD ON THE ECONOMY

THE FIRST THREE YEARS

President Trump inherited a strong economy

When President Trump entered office in January 2017, he benefited from an economy that had largely recovered from the Great Recession and was growing stronger. Under President Obama, the unemployment rate was cut more than in half, there was a record period of monthly job growth and economic growth accelerated in his second term. These trends likely would have continued regardless of who became president in 2017.

The unemployment rate reached 10.0 percent at its peak following the Great Recession, but then was cut more than in half under President Obama. The unemployment rate was only 4.7 percent when President Trump entered office, just slightly above the lowest rate immediately preceding the Great Recession (4.4 percent).[18] In fact, President Trump began his term with an unusually low unemployment rate compared to previous administrations. Since 1953, only three presidents entered office with lower unemployment rates: George W. Bush (4.2 percent), Richard Nixon (3.4 percent) and Dwight Eisenhower (2.9 percent).[19]



Source: Bureau of Labor Statistics, using the Civilian Unemployment Rate Ages 16+, Seasonally Adjusted

The economy was losing nearly 800,000 jobs per month when Barack Obama became president in January 2009.[20] However, after passage of the American Recovery and Reinvestment Act (ARRA), rescue of the auto industry and extraordinary measures by the Federal Reserve, job growth recovered.[21] The economy added over 15 million jobs during the final 76 months of the Obama presidency — the longest streak of consecutive positive monthly job growth under any U.S. president on record.[22] Average monthly job growth totaled 220,000 nonfarm jobs per month during President Obama's final three years.[23]

President Obama helped set the economy back on a path toward steady growth with real gross domestic product (GDP) growth improving to an annual average of 2.4 percent during his second term.[24] This followed a decline of 2.7 percent in real GDP in 2008, the year before President Obama entered office and a year in which three of the four quarters saw negative growth.[25]

The policy responses of late 2008 and early 2009 reduced the severity and length of the financial crisis and Great Recession.

Economists Alan Blinder and Mark Zandi have found that without these measures by the Obama Administration, Congress and the Federal Reserve, the economy would have contracted for more than three years, more than 17 million jobs would have been lost (twice the actual number), unemployment would have hit nearly 16 percent (rather than 10 percent) and real GDP would have declined nearly 14 percent (rather than 4 percent).[26]

The tax cuts did little to boost the economy, but increased inequality and the debt

As Congress debated the "Tax Cuts and Jobs Act," President Trump and congressional Republicans claimed that the tax cuts would spur business investment, create new jobs, lead to annual GDP growth of up to 6 percent and "pay for themselves."[27] However, this single most important part of the President's economic agenda failed to deliver what was promised, while saddling the country with more debt, increasing inequality and weakening the nation's ability to recover from a future recession.

The predicted long-term increase in business investment never materialized, undermining claims that such investment would be a primary mechanism by which the tax cuts would increase economic growth and job creation. Business investment actually slowed to 2.9 percent in the eight quarters after the tax cuts went into effect after averaging 4.0 percent in the prior eight quarters.[28]

In 2018, real GDP growth increased slightly to 3.0 percent, before falling to 2.2 percent in 2019 — a far cry from the promised 6 percent.[29] Economic growth averaged the same in the eight quarters after the tax cuts were enacted as in the eight quarters before they went into effect (2.4 percent). Much of the growth during this period was driven by government spending rather than by business investment or consumption.[30]

President Trump's televised claim that the tax cuts would be "one of the great Christmas gifts to middle-income people" proved to be deeply misleading.[31] Analysis reveals that the tax cuts heavily favored the very wealthy, with the top 1 percent of households — those with average incomes of almost $2 million — projected to receive an average tax break of nearly $50,000 in 2020. This is approximately 64 times the average tax cut of the middle 20 percent of households, who were projected to receive an average tax cut of $780. The poorest 20 percent were projected to receive an average tax cut of just $60.[32]

The claim that the tax cuts would "pay for themselves" also turned out not to be true. It had been argued that the tax cuts would create such an economic boom that the increase in federal tax revenue would more than offset the cost of the tax cuts.[33] However, CBO estimated that the tax cuts will add $1.9 trillion to the national debt, even after accounting for the boost to economic activity.[34]

The trade war with China harmed the U.S. economy

President Trump's second most important economic policy, the trade war with China, caused extensive American economic casualties. He claimed that the trade war would help create American jobs.[35] He also claimed that it would help American farmers, reduce the trade deficit and that China would pay the entire cost.[36] None of these claims proved to be true.

The trade war resulted in hundreds of thousands of lost U.S. jobs. A study by Moody's Analytics found that by September 2019 it had cost the U.S. economy nearly 300,000 jobs.[37] Many firms did move production out of China due to the tariffs, but those jobs did not return to the United States, with firms moving them to other countries, particularly in Southeast Asia, instead.[38]

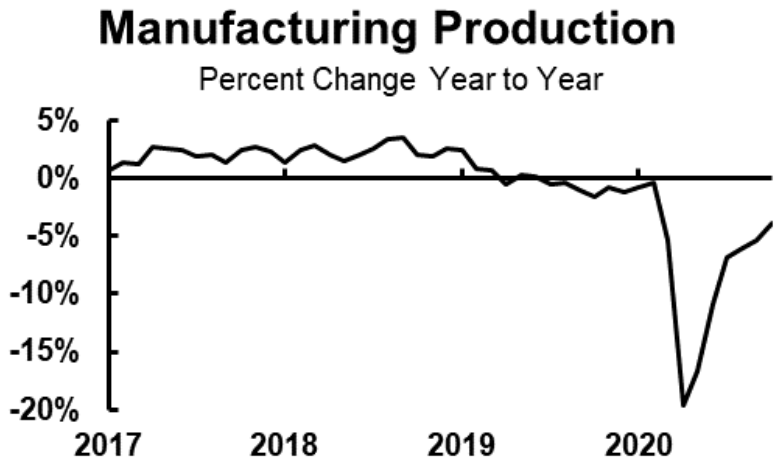
Farmers have suffered as a result of the trade war. Bankruptcy filings for small- and medium-sized farms rose by 20 percent in 2019.[39] As a result, in 2020 the Administration has been forced to give out a record $46 billion in subsidies to farmers in part to compensate for the damage caused by the trade war.[40]

Americans — not the Chinese — have paid more as a result of the tariffs.[41] Economists from the Federal Reserve Bank of New York, Columbia University and Princeton University demonstrated that U.S. businesses and consumers have borne almost the entire cost of tariffs, with "approximately 100 percent" of import taxes passed on to American buyers.[42] Another study from researchers at the Federal Reserve Bank of Boston, Harvard University and the University of Chicago came to the same conclusion.[43] Separate analysis found that the tariffs cost the average family $460 over a year.[44]

Finally, the trade deficit has increased over the course of the trade war. By August 2020, the trade deficit for goods and services had reached its highest level since 2008.[45] The economic turbulence caused by the President's trade war forced the Federal Reserve to take action in 2019, cutting interest rates three times in order to stimulate the economy.[46]

The promised "blue-collar boom" did not materialize

President Trump claimed that his policies have led to a "blue-collar boom," saying that manufacturing job growth has skyrocketed, thousands of new factories have sprung up and hundreds of thousands of factory jobs have returned from overseas.[47] All of these claims are untrue, and manufacturing fell into a slump even before the coronavirus. In 2019, manufacturing was in a technical recession as the Federal Reserve reported that manufacturing production contracted in three of the four quarters. Over the year, factory production shrank by 1.3 percent.[48]



Note: Data are seasonally adjusted.
Source: Federal Reserve Board/Haver Analytics.

Job growth in the manufacturing sector had slowed dramatically before the pandemic. It accelerated somewhat in 2018, with 264,000 jobs created over the year. However, it slowed dramatically to only 58,000 jobs created in 2019.[49] The President's policies and his trade wars with China and other countries have taken a particular toll on the sector, as has the coronavirus. Since February, almost 600,000 manufacturing jobs have been lost — nearly 5 percent of the pre-pandemic manufacturing workforce.[50]

Few manufacturing jobs have returned to the United States under President Trump. Despite the President's claims that he would bring millions of jobs back, companies announced plans to relocate just 145,000 factory jobs to the United States in the first two years of the Trump Administration.[51] Most new "manufacturing establishments" added during the Trump presidency employ five or fewer people. Many of them are not even factories at all, as the Bureau of Labor Statistics uses an expansive definition of a factory that includes any establishment where materials are transformed into new products, which includes even bakeries and tailors.[52]

President Trump's economic record was unspectacular even before the coronavirus

Many of the economic trends established under President Obama continued under President Trump, while others slowed. However, in many respects, President Trump's economic record failed to keep pace with that of his predecessor.

After President Trump entered office, the unemployment rate continued to trend downward, declining another 1.2 percentage points and reaching 3.5 percent in February 2020. This followed a decrease of 5.3 percentage points under President Obama.[53]

President Trump has frequently claimed credit for launching "an unprecedented economic boom" and creating millions of jobs, yet nearly a decade (a record 113 consecutive months) of job growth ended during his presidency.[54] The majority of this record period of monthly job growth occurred under President Obama (76 months).[55] Average job growth during President Trump's first three years of 183,000 nonfarm jobs per month also lagged behind job growth during President Obama's last three years, which totaled 220,000 nonfarm jobs per month.[56]

Average real GDP growth during President Trump's first three years was 2.5 percent. This was in line with the 2.4 percent average of President Obama's second term.[57] The economy grew by 3 percent in 2018, which was the best year under President Trump, before dropping to 2.2 percent growth in 2019.[58]

THE CORONAVIRUS CRISIS

President Trump's record will be defined by his refusal to use the vast power of the U.S. presidency to attempt to contain the coronavirus and by the actions he took that likely worsened its spread. Researchers have found that there could have been 130,000 to 210,000 fewer American deaths by the end of October

if the federal response to the coronavirus had been faster and more effective.[59] The President's failure to fight the coronavirus also caused deep economic damage that likely will be felt for at least several years.

President Trump ignored the advice of public health experts and economists

The President not only ignored the advice of public health experts; he contradicted it, even telling Americans that the coronavirus is almost entirely harmless.[60] Experts said we needed more tests; he said that "if we stop testing right now, we'd have very few cases."[61] They called for widespread use of masks; he refused to wear one for months and mocked those who did.[62] They said to follow scientific evidence; he promoted the use of unproven, risky treatments.[63] They stressed the critical importance of social distancing; he called on supporters to attend large political rallies.[64]

In March, prominent former officials from Democratic and Republican administrations, including two former Chairs of the Federal Reserve, four former Secretaries of the Treasury and five former Chairs of the Council of Economic Advisers, released a letter stating that the number one priority for the economy was to stop the spread of the virus.[65] The President repeatedly ignored that advice and instead presented a false choice between implementing the public health measures needed to save lives and rescuing the economy, tweeting in March that "we cannot let the cure be worse than the problem itself."[66]

The President opposed simple and effective public health measures such as wearing masks

To combat the spread of the coronavirus, in July the Centers for Disease Control and Prevention (CDC) began recommending that

all individuals wear masks in public settings.[67] Because coronavirus spreads mostly through respiratory droplets released via breathing, talking and coughing, masks are highly effective in decreasing its spread, with cloth masks alone blocking over 80 percent of all droplets when worn correctly.[68] However, the President has continually failed to enforce mask usage, dismissing suggestions for a national mask mandate even after Dr. Anthony Fauci, the nation's top infectious disease expert, stated that the United States needs one to get the virus under control.[69] Instead, Trump has actively ignored calls for mask usage, holding mask-optional, packed campaign rallies and hosting crowded White House events, one of which likely led to the President himself contracting the virus.[70]

The President's refusal to urge mask use has already caused dire human and economic consequences. One study found that if the United States had mandated mask usage just for employees of public-facing businesses starting April 1, 2020, the number of deaths from COVID by June 1 could have been 40 percent lower.[71] A recent study of Germany's coronavirus response found that mandatory mask usage reduced infections by an average of 47 percent within just 20 days of enacting the requirement, with one area seeing reductions of up to 75 percent.[72] Similarly, a report from the Institute of Health Metrics and Evaluation found that if 95 percent of Americans wore masks in public, over 100,000 lives could be saved by the end of February 2021.[73]

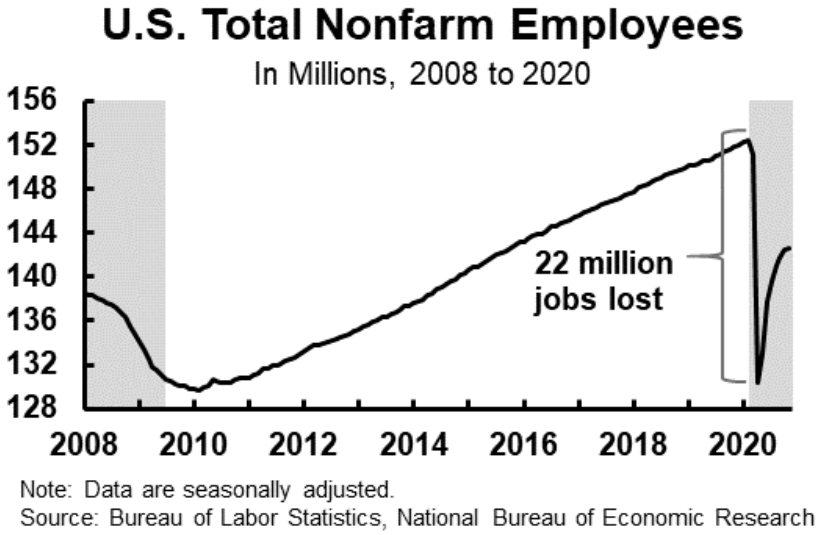
Masks also could play a huge role in strengthening the economy by reducing the need for lockdowns or easing restrictions.[74] In a study conducted by Goldman Sachs, the lockdowns that could be avoided by a national mask mandate were found to prevent GDP losses of up to 5 percent, an amount equivalent to $1 trillion.[75] Additionally, mask usage could provide a boost to the economy by easing concerns individuals may have about resuming

economic activity such as shopping or eating meals outside of the home once it is safe to do so. By limiting the risks that accompany some forms of commercial activity, masks can play a critical role in facilitating a smoother return to more normal economic conditions.[76]

The economy suffered one of the sharpest and deepest declines in U.S. history

In the spring of 2020, as the President refused to acknowledge the danger posed by the coronavirus and it grew out of control, states and municipalities had no choice but to implement strict public health measures that effectively shut down entire sectors of their economies, while many people stopped going to stores, restaurants and other businesses for fear of exposure to the coronavirus — causing the sharpest and one of the deepest economic declines in U.S. history.[77]

In just two months, the U.S. economy lost more than 22 million jobs and by April the official unemployment rate had skyrocketed to 14.7 percent, not counting up to 5 percent who had accidentally been misclassified due to difficulties conducting surveys during the pandemic.[78] The economy also experienced by far the worst contraction on record, with GDP falling 9.0 percent in the second quarter (31.4 percent on an annualized basis).[79]



Workers filed over 1 million regular initial unemployment claims for 19 consecutive weeks beginning in late March. This peaked at over 6.2 million in the week ending April 4 — almost 6.5 times the number filed during the worst week of the Great Recession.[80] Additionally, over 1 million workers filed claims for Pandemic Unemployment Assistance — the newly created program for gig workers, the self-employed and others not eligible for regular unemployment insurance — during three different weeks in May, with a peak of over 1.3 million in the week ending May 23.[81]

President Trump pushed to reopen the economy too soon, risking a resurgence of the virus

A March 2020 survey of 80 of the nation's leading economists found that 8 of 10 agreed that reopening the economy too soon "will lead to greater total economic damage."[82] Yet the President ignored their advice and pressured governors to relax the public health measures essential to containing the virus. "Liberate Michigan," he tweeted in April.[83] "Will some people be affected

badly," he asked rhetorically — "yes, but we have to get our country open and we have to get it open soon."[84]

President Trump has consistently claimed that the root cause of the economic crisis is social distancing measures and states closing down parts of their economies.[85] However, various studies have shown that these claims are false—in most cases declines in consumer spending, the number of open businesses and employment preceded official state shutdowns at the beginning of the pandemic.[86] Research also suggests that people will not resume their normal consumer habits until they are no longer afraid of becoming infected.[87] The virus itself—not public health interventions and social distancing measures — is what is depressing the economy.

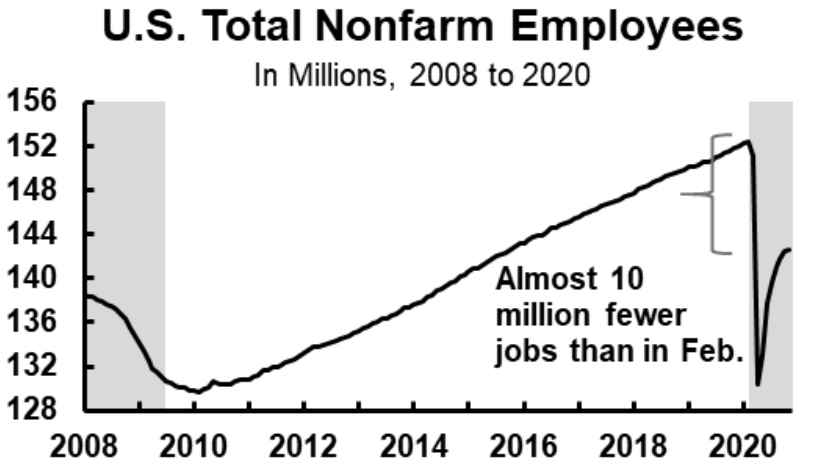
The President partially achieved his short-run objective to improve economic indicators before the election, when the October jobs report found the unemployment rate had dropped to 6.9 percent, not including the more than 4 million Americans who had given up looking for work since February.[88] If these workers as well as those who were misclassified had been included, the unemployment rate would have been much higher at 9.3 percent.[89] The President's gamble also appeared to pay off when third quarter GDP growth hit a record high — but only because it partially rebounded from a record low.[90] However, the dire warnings of public health experts proved to be prescient, with total coronavirus cases in the United States surging past 16 million and deaths past 300,000 by mid-December.[91]

The economic outlook is worse than it appears

Although the economy has rebounded in some ways beginning in May, the economy is still down millions of jobs, the unemployment rate is still elevated, a steady stream of workers continue to file unemployment claims each week and economic

growth is slower. Real GDP in the third quarter of 2020 increased a record 7.4 percent (33.1 percent at an annualized rate). However, this was due to the fact that GDP had suffered a record decrease in the second quarter, plummeting 9 percent (31.4 percent at an annualized rate).[92] The economy is still 3.5 percent smaller than it was at the end of 2019 — slightly less than the 4 percent decline in GDP over the entire Great Recession — and GDP growth is expected to slow significantly in the fourth quarter.[93]

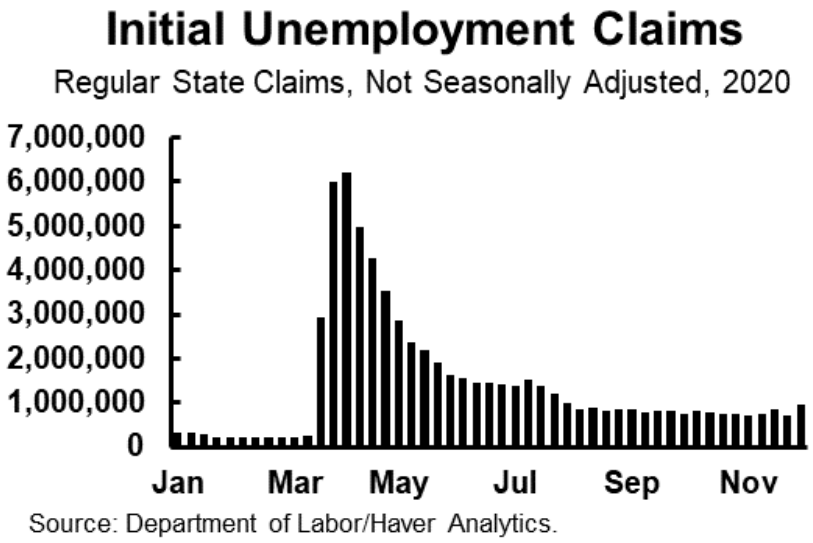
In November, there were almost 10 million fewer jobs than there were in February.[94] The unemployment rate in November dropped to 6.7 percent — far below the 14.7 percent reached in April but still almost double the pre-pandemic unemployment rate of 3.5 percent in February.[95] However, this does not account for the fact that since February 5 million unemployed workers had given up looking for a job.[96] Federal Reserve Chair Jerome Powell said in September that if those who had left the labor force since February were counted as unemployed, the unemployment rate probably would be 3 percentage points higher.[97]



Note: Data are seasonally adjusted.
Source: Bureau of Labor Statistics, National Bureau of Economic Research

Unemployment has become longer and more permanent. The number of long-term unemployed workers — those who have been jobless for 27 weeks or more — has swelled to almost 4 million, more than 3.5 times the number in February.[98] The number of permanent job losers has increased from 2.4 million in February to 3.7 million in November, while the number of workers on temporary layoff has trended the opposite direction.[99] This reinforces the fact that much of the continued job loss is not a temporary phenomenon, and re-employing workers will be much more difficult moving forward than simply recalling them from temporary layoff. The longer workers go without a job, the more damaging it is to their household's financial situation and future employment prospects.[100]

Over 19 million workers received unemployment benefits in the week ending Nov. 21.[101] Over 700,000 workers have continued to file regular initial unemployment claims every week for the past 38 consecutive weeks, with a peak of over 6.2 million in the week ending April 4.[102] Three times the number in a "normal" economy filed for unemployment during the week ending Dec. 5.[103]



At least 288,000 workers have filed claims for Pandemic Unemployment Assistance — the newly created program for independent contractors, the self-employed and others not eligible for regular unemployment insurance — every week since mid-April, with a peak of over 1.3 million in the week ending May 23.[104] Over 8.5 million Americans received PUA benefits in the week ending Nov. 21.[105] Millions of workers also have exhausted regular state unemployment benefits and are receiving Pandemic Emergency Unemployment Compensation (PEUC), an additional 13 weeks of unemployment benefits beyond the normal 26 weeks provided by most states. Over 4.5 million Americans received PEUC benefits in the week ending Nov. 21.[106]

Americans are under severe pressure

Millions of Americans are under severe pressure as they are struggling to afford their bills, make their rent and mortgage payments and put enough food on the table for their families. According to the most recent week of the Census Bureau's Household Pulse Survey, over 82 million adults have had difficulty paying for usual household expenses during the pandemic, and over 25 million sometimes or often did not have enough food in the last week.[107] Another nearly 6 million adults — one-third of the almost 17 million adults in households that are behind on rent or mortgage payments — say they are likely to face eviction or foreclosure in the next two months.[108] Eight million Americans have slipped into poverty since May, according to researchers at Columbia University.[109] The share of Americans needing government assistance has skyrocketed. Nearly one-fourth of adults report that their family has received assistance from unemployment insurance, the Supplemental Nutrition Assistance Program (SNAP) or charitable organizations since the start of the pandemic.[110]

The President's failure to acknowledge the threat of the coronavirus and his refusal to use the power of the presidency to fight it will weigh down the U.S. economy for years to come. Federal Reserve Chairman Jerome Powell and others repeatedly have said that the economy will not fully recover until the coronavirus is contained and Americans believe that it is safe to resume normal economic activity.[111] In order to stimulate the weak economy, the Federal Reserve took the extraordinary step of signaling that it will keep interest rates at near zero for three more years.[112]

CHAPTER 2: THE ADMINISTRATION'S FAILURE TO SUPPORT RECOVERY

The failure to contain the initial coronavirus outbreak in the United States in the spring of 2020 led to a rapid and unprecedented drop in economic activity and employment. The country saw 6.2 million workers file for unemployment insurance in just one week in April, which was 6.5 times larger than the worst week of the Great Recession and almost 30 times higher than the February average.[113] This presented an enormous threat to millions of workers and their families, small businesses in every community and the broader economy. Economist Jason Furman, former Chair of the Council of Economic Advisers during the Obama Administration, warned in March that "this feels much worse than 2008. Lehman Brothers was quite bad, but it was the culmination of a sequence of things that had happened over 14 months. This hit all at once."[114]

Congress and the Federal Reserve acted quickly and powerfully to address this crisis, containing the economic fallout and protecting families. In particular, enhanced unemployment benefits, direct payments and support for small businesses helped prevent an enormous drop in Americans' disposable incomes and supported consumer spending. However, when that support began to run out at the end of summer, the Administration and Senate Republicans floated widely criticized ideas like a payroll tax cut and a so-called back-to-work bonus.[115] Moreover, they have fiercely opposed additional aid to state and local governments to prevent job losses that could significantly slow the recovery.[116] The end result is that Americans are headed into a winter with skyrocketing caseloads and elevated unemployment without the fiscal support needed to get them through to a vaccine.

Congress reacted swiftly and powerfully to the coronavirus crisis

Congress acted decisively in March to respond to the public health and economic threats posed by COVID. It passed legislation at the beginning of the month focused on public health and research and a few weeks later passed the more comprehensive Families First Coronavirus Response Act (FFCRA).[117]

FFCRA provided two weeks of job-protected paid sick leave to 87 million workers to recover from COVID, quarantine, take care of a loved one or provide child care and an additional 10 weeks for workers providing child care. It also provided tax credits to small- and medium-sized businesses to cover the cost of providing that paid leave.[118] It made important changes to food assistance programs including enacting a "Pandemic EBT" program to help low-income families with children replace the meals they received from federally funded school meal programs before COVID forced schools to close. One study found that Pandemic EBT lifted at least 2.7 -3.9 million children out of hunger.[119] FFCRA also made important changes to unemployment insurance benefits appropriate for a pandemic such as waiving requirements that unemployment insurance (UI) recipients search for work and wait a week before receiving benefits.[120]

Congress passed even more far-reaching legislation, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, at the end of March. Most significantly, the CARES Act supercharged the unemployment insurance system to support workers who lost their jobs or were furloughed by increasing weekly benefits by $600, increasing the number of weeks someone can receive regular unemployment benefits by 13 weeks and enacting a Pandemic Unemployment Assistance program to provide income support to workers who do not qualify for regular unemployment insurance, such as independent contractors, workers with insufficient earnings history or workers who exhaust

their regular UI benefits in states that offer less than the normal 26 weeks of benefits.[121]

The CARES Act included a host of additional important provisions such as direct payments that could total $3,400 for a family of four, a Paycheck Protection Program (PPP) that delivered forgivable loans to small businesses struggling with falling revenue, a $500 billion stabilization fund for firms, states and cities, an Employee Retention Tax Credit to help firms keep workers on their payroll, moratoria on evictions and foreclosures and billions in public health investments.[122] It also included a modest $150 billion in aid to state, local, territorial and tribal governments to respond to COVID.[123]

The CARES Act was an enormous success at supporting Americans when the realistic unemployment rate reached around 20 percent.[124] In April, wages and salaries fell 8 percent, but disposable income actually *rose* almost 13 percent — mostly because of the combination of direct payments and enhanced unemployment benefits.[125] The collapse of the low-wage labor market in March and April would normally have caused the poverty rate to surge, but the poverty rate actually fell because of benefits provided by the CARES Act, according to a study by the Columbia University Center on Poverty and Inequality.[126] Consumption fell precipitously in both March and April — likely because the virus prevented many people from going out to eat and traveling — but the collapse would have been even larger without the fiscal support in the CARES Act.[127]

The Federal Reserve took extraordinary steps to protect the economy

The Federal Reserve's response under Chair Jerome Powell was similarly forceful. Within a few weeks in March, the Federal Reserve deployed all of its tools from the Great Recession by

reducing interest rates to zero, purchasing billions of dollars in Treasurys and mortgage-backed securities and reopening lending facilities for commercial paper, money markets and more.[128] The Fed even went *beyond* its Great Recession activities to keep credit flowing by purchasing corporate bonds for the first time including those of firms whose debt had been downgraded from investment grade.[129] These actions supported employment and growth while preventing insolvencies from permanently reducing the economy's productive capacity.

Powell summed up his commitment to using the power of the Federal Reserve to prevent the COVID recession from becoming a depression by saying "the Fed is strongly committed to using our tools to do whatever we can for as long as it takes to provide some relief and some stability now, to support the recovery when it comes, and to try to avoid longer-run damage to people's lives through long states of unemployment or to their businesses through unnecessary insolvencies."[130]

The Trump Administration and Senate Republicans failed to extend needed economic support

Despite its success at supporting the economy in the spring and summer, the CARES Act was never intended to be the end of the economic response to the coronavirus. Critical support such as the $600 in additional unemployment benefits for millions of workers expired as early as July, while other support such as PPP and direct payments would require another round, especially given the failure of the Trump Administration to control the virus.[131] House Democrats worked immediately on providing additional support and passed the Heroes Act in May, which would have extended critical support from CARES and provided additional support such as an increase in SNAP benefits and $10,000 in student debt forgiveness.[132]

Extending the $600 in additional unemployment benefits was critical from a public health, humanitarian and economic perspective. It was intended to ensure that laid off and furloughed workers did not have to choose between complying with public health measures and financial devastation; in effect, it would help slow the spread of the virus. The supplement was set at $600 per week, so total unemployment benefits would replace 100 percent of wage income for the average worker.[133] Economists would normally worry that replacing all of a worker's wages would discourage them from finding employment, but that logic shifts in a pandemic when entire industries are shut down and when not working may be the best choice for workers and society since it could slow the virus's spread. Moreover, forcing a large section of the workforce to live on a mere fraction of their previous earnings would reduce aggregate demand.[134] The Congressional Budget Office, for example, estimated that continuing the $600 for the remainder of 2020 would have accelerated the recovery of GDP.[135]

The Administration and Senate Republicans refused to work to negotiate another package until a few weeks before the expiration of the $600 in enhanced unemployment benefits. During that time, the Administration continued to push ineffective proposals like a payroll tax cut, which would provide nothing to unemployed Americans and deliver large tax cuts to wealthy Americans who were unlikely to spend it.[136] One version of the payroll tax cut would have provided a tax cut averaging $132,350 to the top one percent (making over $643,700) compared to a tax cut of just $650 to the bottom 20 percent (making under $24,200).[137] Moreover, the aid from a payroll tax cut would come out gradually throughout the year instead of immediately, blunting its effectiveness at maintaining aggregate demand.[138]

Similarly, the Administration floated a "Return-to-Work" bonus as a replacement for the $600 in enhanced unemployment in the summer.[139] The bonus would have provided an additional incentive for Americans to return to work at a time when most public health officials warned many normal economic activities were not safe. The Administration's proposal stemmed from the President's false claims that the pandemic was under control, claims that have become even more risible as COVID cases and deaths have greatly increased since the summer.[140] The return to work bonus would have forced workers to choose between financial ruin and returning to jobs that put them and their families at risk. Moreover, it would have shifted economic support from those who need it most — unemployed workers who generally receive insufficient unemployment benefits — to workers with jobs.[141]

Without a serious Republican effort to negotiate a deal, the $600 in additional unemployment benefits expired at the end of July. Republicans refused to renew the $600 and resorted to several poorly conceived ideas instead. Senate Republicans, for example, drafted a bill that would initially reduce the supplement to just $200 and eventually limit a worker's UI benefit to 70 percent of their earnings. The $200 supplement would have left many workers living on a fraction of their previous earnings despite a frozen labor market and deteriorating public health situation.[142] Worse, the shift to replacement rates was called unworkable by multiple UI policy experts. Michele Evermore of the National Employment Law Project criticized the proposal, saying "They're going to spend four months programming in a benefit that expires in a month? I think it's not a serious proposal."[143]

Similarly, the Trump Administration resorted to poorly designed executive action that used existing disaster assistance funds to supplement workers' unemployment by $300 instead of agreeing

to extend the $600. This program not only excluded millions of low-wage workers, but also only lasted a matter of weeks since it was capped at just $44 billion.[144] The end result was that a critical support for the economy that buoyed millions of workers who have lost their jobs through no fault of their own disappeared. One study found that the CARES Act's stimulus checks and enhanced unemployment lifted more than 18 million people out of poverty in April, but that number fell to just 4 million in August and September after the expiration of the $600.[145]

The President has opposed aid to state and local governments

Many states are facing an impending fiscal catastrophe because while they attempt to fight an unprecedented public health crisis, most are required by law to balance their budgets. At the same time, their tax revenues are collapsing while their Medicaid costs grow. Some will slash other spending, pushing more of the shortfall onto municipal governments since many rely on state government funding while facing the same collapse in revenue. Failing to provide adequate aid to state and local governments would represent a failure to learn the lessons of the Great Recession, the recovery from which was significantly slowed by budget cuts at the state and local level. It took more than 10 years for state and local government employment to reach its pre-recession level, making the hole for the private sector to dig out of that much deeper.[146]

The Families First Coronavirus Response Act passed in March had provided some modest support to states by increasing the share of states' Medicaid costs that are covered by the federal government for the duration of the public health emergency, which is estimated to deliver $24 billion in aid to states in 2020.[147] The CARES Act included an additional $150 billion in aid to state, local, territorial and tribal governments, but the Trump Administration's Treasury

Department decided to issue regulations that severely restricted what they could spend the money on by generally not allowing them to address revenue shortfalls.[148] This was a policy choice the Administration made that has exacerbated the budget crunch state and local governments face.

The $150 billion in aid was widely seen as insufficient at the time the CARES Act passed and experience has borne that out: the United States has already lost a total of 1.3 million state and local jobs since February, and several states and cities have made clear that they will enact further cuts if aid does not come soon.[149] The need for aid should further increase as COVID cases peak throughout the country. Without further aid, we can expect state and local job losses to significantly slow down the pace of recovery as occurred in the recovery from the Great Recession.

Nevertheless, both Senate Republicans and the Trump Administration have been implacably opposed to additional state and local aid.[150] In fact, Senate Majority Leader Mitch McConnell even stated in April that, rather than providing additional aid, he "would certainly be in favor of allowing states to use the bankruptcy route" and that "we're not going to let [the states] take advantage of this pandemic to solve a lot of problems that they created themselves [with] bad decisions in the past."[151]

President Trump has falsely touted his opposition to additional state and local aid as preventing a "blue state bailout" and that "because all the states that need help — they're run by Democrats in every case...You look at Illinois, you look at New York, look at California, you know, those three, there's tremendous debt there, and many others…Florida is doing phenomenal, Texas is doing phenomenal, the Midwest is, you know, fantastic — very little debt."[152] In reality, Texas, Florida and Midwestern states all face significant revenue shortfalls.[153]

The Administration mismanaged aid to small businesses

A critical goal of federal policy in the COVID crisis is to ensure that small businesses survive. The large-scale collapse of small businesses as entire sectors of the economy are essentially shut down could both slow the pace of recovery once the threat of the virus recedes as well as make it less equitable. For that reason, Congress passed vigorous support for small businesses with the $670 billion Paycheck Protection Program as its centerpiece.[154] Structured as a set of low-interest rate loans for small businesses that could be forgiven if the businesses maintain their payroll, PPP was supposed to protect America's small businesses.[155]

Yet, the Trump Administration prevented the program from living up to its full potential. The rollout was a mess with several large banks threatening to delay the launch of their lending programs because of insufficient guidance from the Treasury Department.[156] Loans did not flow to the regions or industries that were hardest hit. In the initial round of loans, the hardest hit industry — hospitality, accommodation and food services — received just 9 percent of loans.[157] Similarly, less than 20 percent of small businesses in New York City received a loan compared to more than half in Nebraska despite the fact that the former's death rate from COVID-19 was roughly 20 times that of the latter in the spring.[158]

One reason for the poor targeting of the PPP loans was the reliance on financial institutions, which steered loans to larger businesses that would make them more money in fees and favored businesses with whom they had preexisting relationships.[159] All of this harmed the program's ability to reach Black and Hispanic business owners — one survey found that during the initial round of funding, just 12 percent of Black and Hispanic small-business

owners reported receiving the amount they requested from the Small Business Administration.[160]

Economic recovery and the livelihoods of millions of Americans are at risk

The drag on the economy produced by the lack of a bipartisan deal on new federal legislation will only grow over the coming months. Most importantly, 12 million unemployed workers will see the unemployment benefits they currently receive because of the CARES Act expire by the end of the year.[161] That alone would reduce first quarter incomes by $150 billion, according to one estimate.[162] This is a true economic and humanitarian emergency — the expiration of the $600 in additional unemployment benefits meant that millions of unemployed Americans would be forced to live on a fraction of their previous incomes. The exhaustion and expiration of their base unemployment benefits means that they will have nothing — how they will buy groceries or pay for housing is unknown.

That the economy and millions of livelihoods are at risk is the result of a set of deliberate choices by Senate Republicans and President Trump. The House of Representatives has already passed two versions of the Heroes Act, a bill that would provide vital income support to millions of Americans while restarting the economy.[163]

Instead, Republicans have dragged their feet on additional COVID aid and then have released proposals that provide insufficient support. They were opposed to extending the $600 in additional unemployment benefits that were critical to maintaining aggregate demand and allowing unemployed workers to make it through the pandemic without suffering a dramatic decline in their standard of living.[164] They have been unwavering in their opposition to additional aid to state and local governments, which is necessary

to prevent state and local job losses from slowing down the recovery.[165] And — most importantly — no Republican proposal until the December bipartisan proposal would extend unemployment benefits for the millions of unemployed workers who will exhaust their benefits or see them expire at the end of the year.

Economic support should be tied to the state of the economy

The failure of Senate Republicans and the White House to approve additional economic support while it is very much needed underlines the need for policymakers to tie it to the state of the economy instead of arbitrary cutoff dates.[166] Joint Economic Committee Vice Chair Don Beyer, along with Representative Derek Kilmer, Senator Jack Reed and Senator Michael Bennet, developed the Worker Relief and Security Act, which would have tied UI benefits to the public health crisis and the economy.[167] This would not only have ensured that the supplemental UI benefits did not expire in July, but would also have given workers peace of mind that their incomes would not suddenly fall. Tying other economic support such as nutrition assistance and state and local aid to the state of the economy would also sustain struggling families while boosting the economy.[168] Enhancing automatic stabilizers — especially in light of the struggles Washington has had with meeting deadlines — should be a priority of the next Administration and Congress.

Additional fiscal support is needed urgently

The economy has been buoyed by the savings workers accumulated from the extraordinary support provided by the CARES Act in addition to the pandemic's reduction in opportunities for spending. The personal savings rate, for example, surged to 34 percent in May compared to 7 percent in May of the previous year and, as of October, it remained

elevated.[169] Indeed, a detailed study by the JP Morgan Chase Institute found that the $600 doubled the liquid savings of unemployed workers between March and July, but they spent two-thirds of that savings in August alone.[170] The disappearance of this tailwind for the economy this fall has likely contributed to the slowing of the recovery.

The end result is that the United States is entering a period of surging COVID caseloads, school shutdowns and large-scale business closures without additional fiscal support.[171] The recovery from peak unemployment levels of around 20 percent has been faster than many observers expected, but the policies and COVID caseloads that produced the 20 percent unemployment have returned.[172]

CHAPTER 3: RACE, CLASS AND THE CORONAVIRUS

The *Economic Report of the President* credits the Trump Administration for what until February 2020 appeared to be decreasing economic inequality, with low unemployment rates and increased wages for racial and ethnic groups that historically have suffered second-class economic status. Black Americans, for example, who for decades had experienced unemployment rates approximately twice as high as White Americans, saw their jobless rate fall to only 5.8 percent in February 2020. Similarly, Hispanic Americans saw their unemployment rate fall to only 4.4 percent.[173]

However, these modest improvements were the result of the recovery from the Great Recession and the record-breaking economic expansion under the Obama Administration, not the Trump Administration's economic policies. The Federal Reserve also played a key role, keeping interest rates low even when overall unemployment fell below its "natural rate."[174]

The *Report* claimed too much credit and claimed it too soon. When the coronavirus pandemic struck the United States in the spring of 2020, unemployment skyrocketed to 14.7 percent overall, 16.8 percent for Black workers and 18.9 percent for Hispanic workers.[175] Despite the fact that unemployment rates for all workers and for these groups have fallen in recent months, the gains of the pre-COVID period have been rolled back.

The Trump Administration's incompetent and often counterproductive response to the coronavirus pandemic has led to widespread suffering concentrated among the most vulnerable the working poor, immigrants, Black, Hispanic and Native Americans, and others — who are disproportionately exposed to the coronavirus and also more likely to suffer economic hardship

because of it.[176] The intertwined public health and economic crises have exposed underlying structural inequities in U.S. society that were not fully overcome by the long economic expansion. Identifying the extent to which these crises have exacerbated existing gaps in equity throughout the American economy should provide future administrations with a guide as to where to direct resources to prevent future crises from having the same results.

RESPONSE TO THE CLAIM THAT TRUMP'S POLICIES HAVE LESSENED INEQUALITY

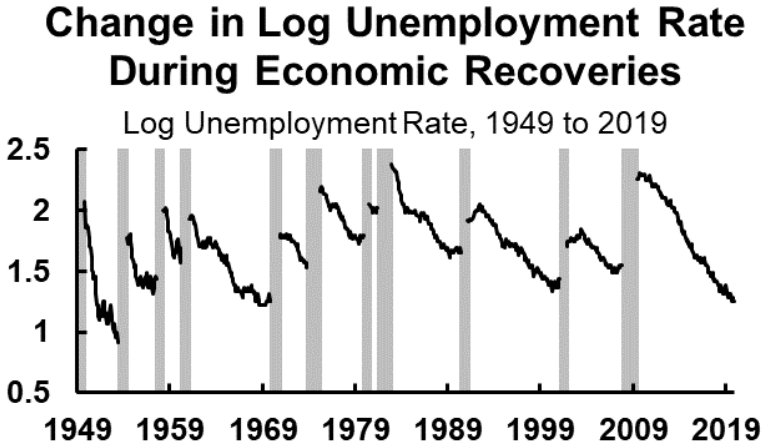
The *Report* incorrectly gives the Trump Administration credit for the tightening labor market in the years leading up to the coronavirus pandemic. In fact, historically low unemployment rates before the pandemic represented a continuation of the record 6 year economic expansion under the Obama Administration.[177]

The *Report* celebrates the record low unemployment rate for Black Americans in August 2019, without acknowledging that the rate remained nearly 60 percent higher than the rate for Whites.[178] It goes on to elaborate the benefits of persistently low unemployment — such as higher wage gains for low income and less educated workers, and wage gains and lower poverty rates overall and for Black Americans and Hispanics in particular.[179] However, these also were a result of the booming labor market and economic expansion which the Trump Administration inherited from the Obama Administration.[180]

The Administration's signature economic policy did not reduce economic inequality

The *Report* is particularly perverse in its crediting of the highly regressive 2017 Tax Act with reducing income inequality and increasing employment and wages. The tax cuts implemented by the Trump Administration were skewed toward high earners and

corporations, and there is little to no evidence that those tax breaks resulted in increased employment by the companies that benefited from them.[181] Historical evidence suggests that the unemployment rate always declines at a steady pace during economic recoveries and expansions, and as former Fed Chair Yellen pointed out, expansions do not "just die of old age."[182] But, as former colleague Ben Bernanke replied, "they get murdered" — in our current case, by the steep recession that resulted from the Trump Administration's failure to contain the coronavirus.[183]



Source: Hall, R. E., & Kudlyak, M. 2020. "The Inexorable Recoveries of U.S. Unemployment." NBER Working Paper.

The Federal Reserve deserves credit for keeping rates low throughout the economic expansion

If any federal policy deserves credit for the continuing expansion between 2017 and early 2020, it is the Federal Open Market Committee's (FOMC) monetary policy, which cut interest rates and sustained them at below 3 percent even with unemployment below what had previously been considered its "natural rate."[184] The Federal Reserve made the important decision to *not* halt the economic expansion out of fear that the economy would "run hot"

and stoke inflation. The FOMC under Federal Reserve Chairman Powell had already started cutting rates in summer of 2019, after a brief tightening cycle which had only brought interest rates half of the way back to their normal levels.[185]

Community stakeholders also played an important role, repeatedly emphasizing the importance of a tight labor market for disadvantaged communities during the "Fed Listens" series of public outreach events. The willingness of the FOMC to hold off on raising rates, which has now been formalized in their new policy framework, preserved the Obama-era expansion. The origins of this policy rest firmly with the FOMC. White House initiatives, including the Tax Cuts and Jobs Act of 2017 (TCJA) and deregulation, did not increase job growth beyond the existing trend.[186]

ECONOMIC DISADVANTAGES AS A RISK FACTOR FOR COVID-19

As of mid-December 2020, the coronavirus has caused the deaths of more than 300,000 Americans, affecting those from every region, race and socioeconomic background.[187] The economic shock caused by the pandemic resulted in a sharp rise in unemployment, with the overall rate rising to 14.7 percent in April 2020.[188] However, the virus has hit those with modest means the hardest, particularly lower income Black, Hispanic and Native Americans, far out of proportion to their share of the population. While it has long been understood that wealth, race and health are closely tied, COVID-19 has focused attention on the high human cost of structural inequalities in American society.[189]

Poor Americans are more likely to suffer from health conditions that make them more vulnerable to COVID-19

The relationship between health and socioeconomic status flows in both directions: the wealthy effectively can buy better health through medical care, better quality food and safer living spaces, and the healthy are better able to become wealthy through uninterrupted participation in the labor market and lower unexpected health care costs. The poor cannot afford the health insurance and medical services necessary to stay healthy, making them less able to escape from being poor.

As a result, Americans living near or below the poverty line are much more likely than their wealthier counterparts to have underlying health conditions like hypertension, chronic lung disease, diabetes, obesity and heart disease. A study by the Centers for Disease Control (CDC) finds that nearly nine of 10 individuals hospitalized with COVID-19 suffer from such conditions.[190]

Black, Hispanic and Native Americans are more likely than White Americans to live in poverty. Partly as a result, they are more likely to contract the virus, be hospitalized for it and die from it. As of November 30, 2020, Native Americans were 1.8 times more likely than White Americans to have contracted the virus, four times more likely to be hospitalized for it and 2.6 times more likely to die from it. Hispanic Americans had largely similar case and hospitalization rates as Native Americans, at 1.7 times the case rate and 4.1 times the hospitalization rate, but had a higher mortality rate at 2.8 times the White rate. Black Americans had a similar death rate from coronavirus to Hispanic Americans at 2.8 times the White rate, but had lower contraction and hospitalization rates, at 1.4 and 3.7 times the White rates.[191]

The working poor are more likely to be exposed to the coronavirus

The working poor are more likely to be exposed to the coronavirus because they are more likely to have jobs in parts of the service sector that put them in close contact with the public — for example, as home health aides, grocery clerks, restaurant workers and housekeepers. These occupations are disproportionally held by Black and Hispanic Americans. They also are far less likely than better-paying jobs to offer paid sick leave or health insurance.[192] Almost none of them offer the opportunity to work from home.[193]

Twenty-four percent of both Black and Hispanic Americans work in service occupations, compared to 16 percent of White and Asian Americans.[194] Within the service occupations, the largest shares of Black and Hispanic workers work in health care support, food preparation and serving, personal care, and building and grounds cleaning and maintenance. Black workers are particularly overrepresented in health care support compared to other service occupations, making up 27 percent of the workers in that occupation, which includes nurses, psychiatric aides and home health aides, though they account for 13 percent of the labor force. Hispanic workers, who comprise 18 percent of the workforce, are overrepresented in building and grounds cleaning and maintenance, making up 38 percent of the workers in that occupation, which includes maids, housekeeping cleaners and grounds maintenance workers.[195]

"Essential" workers — disproportionately immigrants and people of color — face greater health risks

Although the employees of industries classified as "essential" by the Department of Homeland Security are demographically similar to the labor force as a whole, those in occupations which cannot be done remotely — the true "frontline" workers — are

disproportionately in the lowest quintile of wage earners, people of color and/or immigrants. This holds true even after taking account of which industries have been entirely or largely shut down. These frontline occupations within essential industries include both heavily female occupations in industries such as retail and health care, as well as heavily male occupations in industries such as transportation and construction.[196] Non-remote workers have suffered worse respiratory health, greater perceived fears of COVID infection and greater job losses during the pandemic. These disparities have been most severe for non-remote workers in the poorest households.[197]

Immigrants disproportionately work in essential occupations. The Center for Migration Studies found that there are 19.8 million foreign-born workers qualified as essential. Sixty-nine percent of immigrants are in essential work categories compared to 65 percent of the native-born labor force.[198] About three-fourths of undocumented immigrants in the labor force are in sectors classified as essential.

According to 2019 BLS data, immigrants account for a disproportionate labor share within several industries that are primarily classified as essential. Despite accounting for just 17 percent of the labor force, immigrants make up 23 percent of workers in agriculture, forestry, fishing and hunting; 28 percent of workers in construction; 19 percent of workers in manufacturing; and 21 percent of workers in transportation and utilities, professional and business services, and leisure and hospitality.[199] This disproportionate employment in essential industries means immigrant workers are less able to limit their exposure to COVID-19.

Jobs that were a pathway to the middle class pose increased risks

Stable public sector occupations (transit workers, public school teachers, post office staff, etc.) that for decades have provided a reliable path to the middle class for Black and Hispanic workers have proven to be a double-edged sword during the pandemic.[200] These jobs largely cannot be done from the safety of home; as a result, to bring home a paycheck, these middle-class workers put themselves and their families at risk of becoming infected with coronavirus. Tragic reports have surfaced of public transit workers, grocery store clerks and health care assistants being exposed to the virus, contracting COVID-19 and in some cases dying because their jobs require that they be in close contact with the public, even when it puts their health at risk.[201]

Many Americans don't have the resources to withstand an economic downturn

While sudden health changes can be challenging economic events for households across the socioeconomic spectrum, they are devastating for poorer households. With U.S. health care costs the highest in the world (and with worse health outcomes than countries in the Organisation for Economic Co-operation and Development that spend far less), paying for unexpected health care costs can bankrupt some families.[202] In 2018, nearly 40 percent of American adults would have found it difficult to cover an unexpected $400 expense, having to either put it on a credit card, take out a loan, borrow from a friend or family member, or sell something.[203] Workers who experience serious health shocks and have to leave the labor force often do not receive public assistance after doing so, find it difficult to reintegrate into the labor force and are therefore at increased risk of falling into poverty.[204]

This creates a pernicious cycle for COVID-19 victims. The poor are at higher risk of contracting COVID-19 or developing serious complications from it. If it forces them to leave work or pay for an expensive unexpected medical cost, the disease can drive them deeper into economic hardship or poverty. In this way, the coronavirus pandemic may exacerbate both economic and public health inequality.[205]

ECONOMIC STATE OF THE BLACK COMMUNITY

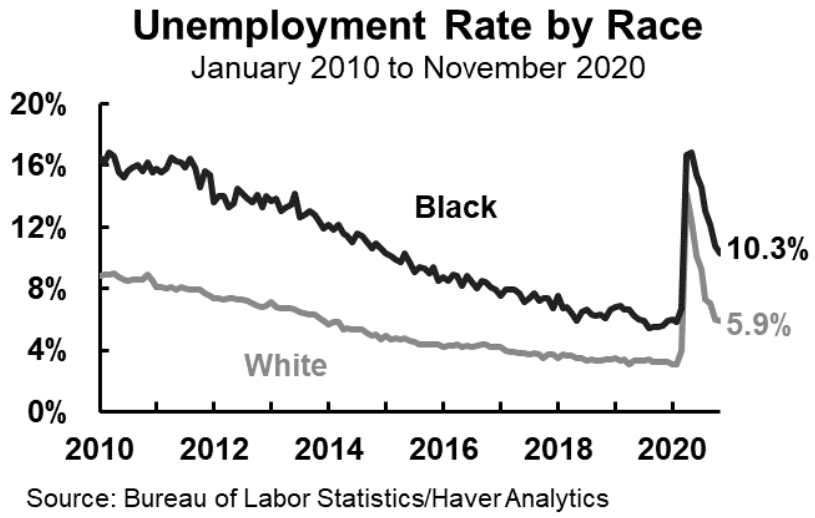
Despite significant economic progress over the past decades, Black Americans experience far worse economic conditions than Whites and the population as a whole. Over the course of 2020, longstanding and deep-seated inequities were thrown into sharp relief as a result of the COVID-19 pandemic and the deep economic recession that followed. Evaluating the economic state of Black America requires acknowledging that while the United States has made some progress over the course of its history, very large disparities continue to persist. Recognizing both the progress and the challenges is essential to ensuring that every American has a realistic chance to achieve success and security.

Black workers have experienced higher unemployment as a result of the coronavirus recession

Black Americans historically have suffered approximately twice the unemployment rate of White Americans, even during past economic crises. However, that ratio fell at the beginning of the coronavirus recession in April 2020, when the Black unemployment rate reached 16.7 percent while White unemployment peaked at 14.2 percent, bringing the Black-White unemployment ratio down to an historic low of 1.2 to 1.[206] The sharp increases in both unemployment rates were largely the result of the effects of the pandemic and nationwide efforts to contain it.[207] The Black unemployment rate's smaller-than-expected

increase may have also been a double-edged sword at the onset of the pandemic, given the significant health risks associated with working outside the home during the pandemic. Black workers are overrepresented in service occupations such as food preparation and health care support, which entail close personal contact with customers and are less likely to have access to paid sick leave and telework options.

As stay-at-home orders were relaxed and businesses began to reopen, the unemployment rate for White workers dropped much faster and by a greater amount than for Black workers. The Black-White unemployment ratio today is approaching its "normal" 2:1 ratio; in November 2020 White unemployment stood at 5.9 percent while Black unemployment remained at 10.3 percent, bringing the ratio to 1.8 to 1.[208] Black workers could see prolonged spells of unemployment as the recession, which was originally caused by pandemic-related restrictions on economic activity, continues as a result of reduced consumption. These extended periods of unemployment have characterized Black workers' labor market experiences in past economic downturns.[209]

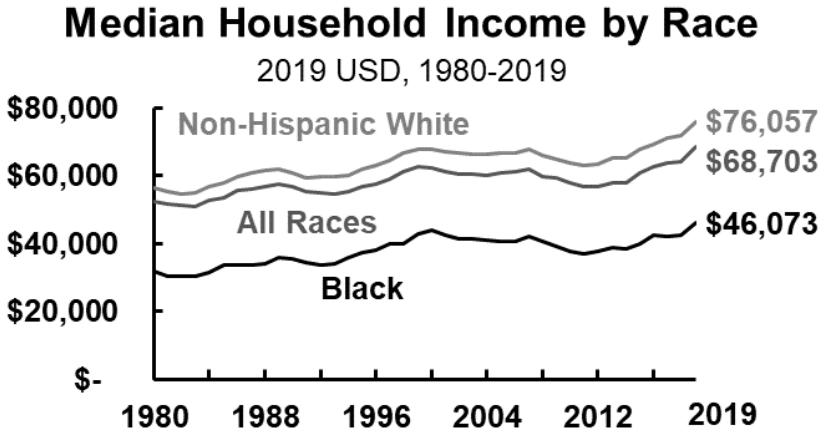


The pandemic-induced recession has also reversed the decade-long convergence in labor force participation for Black and White workers. Between January 2010 and February 2020 the gap in labor force participation fell from 3 percentage points to just 0.2 percentage points. This downward trend reversed abruptly with the onset of social distancing and stay-at-home orders. As of November 2020, the gap has risen to 1.2 percentage points, erasing more than a third of the gains made over the previous 10 years of tight labor markets.[210]

Large racial disparities in household income and poverty persist

Rising wage inequality and stagnating wage growth in the United States over the past 40 years have coincided with increasing racial disparities in wages and wage growth. Wages have grown fastest for those at the top of the income distribution, including for high-earning Black workers. However, because Black workers make up a disproportionate share of the bottom of the income distribution, slow wage gains at the bottom have hit the Black community hardest.[211]

The median annual household income for Black households in 2019 was $46,073, more than $20,000 less than households of all races and $30,000 less than for White households, which had a median income of $76,057. In other words, for every dollar earned by the typical White household, the typical Black household earned only 61 cents. This is significantly worse than in 2000, when the typical Black household earned about 65 cents for every dollar earned by a White household.



Note: Income in 2019 CPI-U-RS adjusted dollars.
Source: U.S. Census Bureau, "Income and Poverty in the United States: 2019," Table A-2.

Black workers are more likely to work at or below the minimum wage than White workers; 2.4 percent of Black workers worked at or below the federal minimum wage of $7.25 in 2019 compared to 1.9 percent of White workers. In 2019 Black workers made up 18 percent of minimum wage workers despite being only 13 percent of the labor force.[212] Black workers would therefore disproportionately benefit from increases in the minimum wage; 38 percent would benefit from an increase as compared to 23 percent of White workers.[213]

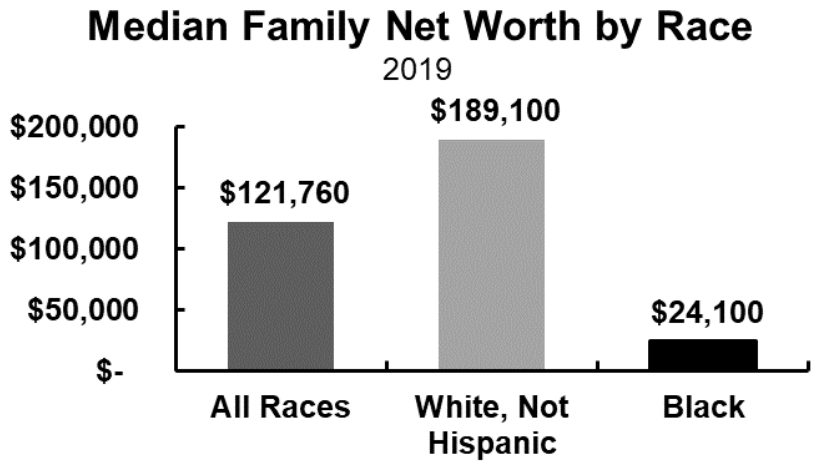
Ironically, college-educated Black workers face a larger absolute income gap relative to White workers than those without a college education. College educated Black workers are also at a higher risk of being underemployed — working in occupations that do not make use of their education and consequently pay less. Almost 40 percent of Black college graduates are underemployed, compared to 31 percent of White graduates.[214]

As a result of disparities in employment and wages, Black workers are over twice as likely to live in poverty as White Americans. The

share of Black Americans living below the poverty line fell below 20 percent for the first time since 1959 in 2019 — a long overdue milestone that will likely be rolled back as a result of the pandemic.[215] Black Americans also face high rates of child poverty in America, with under-18 poverty rates close to or exceeding 30 percent dating back to 1974. The poverty rate for Black children regularly triples the rate for White children.[216]

The median net wealth of Black families is only one-eighth that of White families

The median net worth of White families in 2019 was $189,100, nearly eight times the median net worth of Black families, which was only $24,100. The median Black net worth is less than one year's subsistence at the federal poverty level for a family of four. Though the gap in wealth between White and Black families fell in relative terms between 2016 and 2019 from almost ten times to eight times, the absolute gap was little changed, falling just $1,370.



Source: JEC Democratic staff calculations, Federal Reserve Survey of Consumer Finances, 2019.

Racial wealth disparities are larger for more highly educated Blacks and Whites than for those with less education. While the Black-White wealth gap was about $65,000 for those with less than a high school education in 2019, for those with a bachelor's degree and higher, the gap was over $300,000. The median net worth of college-educated Black families was $72,450, compared to $397,000 for White families. Black adults are also disproportionately burdened by student loan debt; 20 years after starting college, the typical Black borrower still owes 95 percent of his or her original balance, while the typical White borrower owes only six percent.[217]

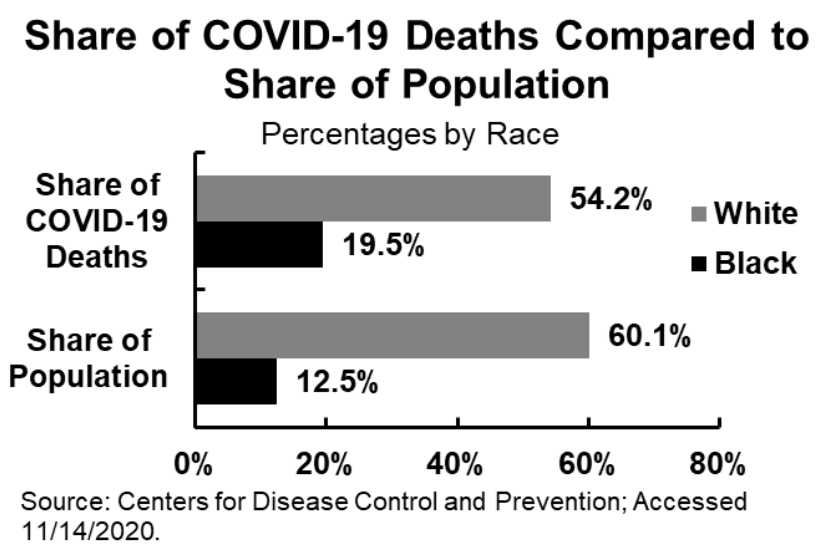
Homeownership is the primary component of wealth for most American households. Yet, less than half of Black families owned their homes in 2020 (46 percent), compared to three quarters of White families (73 percent).[218] This is a significant decline from the peak of Black homeownership in 2004 when 49 percent of Black households owned their homes. The collapse of the housing market in 2008 hit Black homeowners particularly hard, with Black households over 70 percent more likely to have faced foreclosure than non-Hispanic White households.[219] Homes in majority-Black neighborhoods are also valued lower, even when controlling for home quality and neighborhood amenities, and despite Black Americans paying higher mortgage interest rates overall.[220]

Intergenerational wealth transfers are a determining factor in the distribution of wealth in the United States and of the racial wealth gap in particular.[221] Throughout history, Black Americans have been excluded from programs that allowed a White middle class to emerge and build wealth. The wealth Blacks were able to build despite these hurdles was often destroyed through acts of domestic terrorism (e.g., Wilmington, NC in 1898, Tulsa, OK in 1921, and countless lynchings throughout the 19th and 20th centuries).[222]

Institutional practices like redlining, the undervaluation of homes in majority-Black neighborhoods and predatory lending continue to exacerbate racial wealth disparities. The failure to fully address these inequities sustains the wealth gap from generation to generation.[223]

The Black community faces significant physical and mental health risks from COVID-19

As a result of a variety of systemic factors — occupational segregation, poor working conditions, discrimination in health care and an overabundance of preexisting health conditions, Black Americans are contracting and dying from COVID-19 at disproportionate rates. Black Americans make up one fifth of all coronavirus-related deaths in the United States, despite making up only 12.5 percent of the population. Black Americans' age-adjusted mortality rate from COVID-19 is triple that of White Americans. As of November 2020, one in 875 Black Americans has died from COVID-19.[224]



People of color are more likely to experience mental illness during the pandemic partly because they are bearing the brunt of the pandemic's health and economic effects. For example, Blacks, Hispanics and Native Americans are about 1.5 or more times as likely as Whites to test positive for COVID-19 and approximately four times as likely to be hospitalized for it. In late September, 46 percent of Black Americans and 43 percent of Hispanics reported that they had difficulty paying for usual expenses during the pandemic, compared to 25 percent of Whites.[225]

Racial disparities in mortality rates and the incidence of sickness and disability are partially the result of disparities in access to the resources that protect and promote good health. The relationship between socioeconomic status and life expectancy is well-established in the United States, and a large portion of the life-expectancy gap between Black and White Americans can be attributed to disparities in income and educational attainment. However, even when controlling for income, education and wealth, racial disparities in health remain. These unexplained disparities suggest that discrimination and racial bias play a role in determining poorer health outcomes for Black Americans.

ECONOMIC STATE OF THE HISPANIC COMMUNITY

The coronavirus pandemic and recession has hit the Hispanic community hard, with Hispanics significantly more vulnerable to contracting, requiring hospitalization and dying from COVID-19 than Whites. This is partly because of structural inequalities, including the fact that a greater share of Hispanics hold essential jobs that put them in contact with the public. Hispanics are more than 1.5 times as likely as Whites to test positive for the coronavirus, close to three times as likely to die as White Americans and more like to be hospitalized for COVID-19 than any other ethno-racial group.[226] Hispanic children and young

adults under 24 represent over 40 percent of all the COVID-19 deaths among Americans of their age.[227]

The economic impact of the pandemic has been similarly crushing. Hispanic workers went from record high employment to hardest hit in a matter of months, with nearly one-in-five Hispanic women out of work at the April unemployment peak. Hispanic families face financial and food hardship, as well as higher eviction rates than the broader population. Although these disparities were heightened by the crisis, they have long predated it. While Hispanics have made significant progress over the past decades, including nearly doubling their rate of college completion, there still remain substantial obstacles to reducing economic inequality between Hispanic Americans and the broader population.

The coronavirus recession has hit Hispanic Americans particularly hard

In addition to higher rates of exposure to and hospitalization from coronavirus, Hispanic Americans have faced disproportionate economic insecurity during the pandemic-induced recession. The current hardships highlight structural barriers Hispanics face in employment, income, wealth, home ownership and health insurance.

Hispanic women and families with children have faced a meteoric rise in financial and food hardship due to COVID-19. According to the Center on Budget and Policy Priorities (CBPP), 36 percent of Hispanic children have experienced hardship during the pandemic. Among Hispanics, food insecurity doubled from March to September 2020. More than one-in-three Hispanic households have experienced food insecurity.[228] Nearly three in ten Hispanic renters reported being behind on rent.[229] A disproportionate share of Hispanics — particularly Hispanic women — work in private households and informal child care settings.[230] Yet Hispanics

report they are less likely to have anyone available to care for their children while they strive to continue to work during school closures and hybrid schooling arrangements.[231]

Hispanics face income and wealth inequality

Hispanic Americans face inequalities in income, net worth, college completion, employment, food security, health insurance, access to capital and other objective measures of economic wellbeing. The typical Hispanic woman working full time year-round earns just 55 cents on the dollar compared to the typical White man working full time year-round, a gap that is 24 cents wider than that between White men and women.[232]

While the tight labor market during the recent economic expansion may have benefited Hispanic workers, it has done little to solve the enduring discrepancies in wealth between Hispanic and non-Hispanic White households. Hispanic households have much less wealth than White households. In 2019, the median net worth of Hispanic families was only $36,100 compared to $188,200 for

White families — a difference of over $152,000.[233] If measured by average net worth (comparing a mean net worth of $165,500 for Hispanics versus $983,400 for Whites), Whites have six times as much wealth.

Hispanics disproportionately lack access to affordable housing

Many Hispanics struggle to find and maintain a place of residence at a cost that is reasonable. Homeownership among Hispanics lags the homeownership rate of Whites. Only about half of Hispanics are homeowners compared to about three-in-four Whites.[234] More than half of all Hispanics rent their homes and over half of all Hispanic renters are severely or moderately rent-burdened — meaning that more than 30 percent of their income goes to cover rent.[235] States with the highest share of rent-burdened residents are the states with some of the largest Hispanic populations, such as Florida, California and New York.[236] About one-in-four Hispanic families spend at least half of their income on housing, with most low-income families spending over half of their income on rent.[237]

Ironically, while many Hispanics lack access to affordable housing and are at higher risk of eviction and displacement than the broader population, they play an outsized role in building and maintaining the nation's housing supply. More than one-in-three workers in construction are Hispanic. Five out of the seven occupations that are half or more Hispanic are in construction (drywall installers (68 percent); carpet, floor and tile installers (60 percent); painters, construction and maintenance (56 percent); roofers (51 percent); etc.). The other two detailed occupations that are about half or more Hispanic are in agriculture.[238]

Hispanic households are more likely to be unbanked than White households

Hispanic households (14 percent) are much more likely to not have a checking or saving account than White households (3 percent).[239] Lacking access to mainstream banking and credit often means paying higher costs for financing. According to a study by the Pew Charitable Trusts, Hispanics are 1.5 times as likely as Whites to use payday loans.[240] Interest on payday loans often has an effective annual percentage rate well above industry standards for credit cards or other consumer loans. This further lowers the capital available to Hispanic households already facing lower levels of personal earnings and higher rates of poverty.

Hispanic families are less likely to have health insurance than other Americans

Hispanic workers, families and children have much higher uninsured rates than other Americans. In 2019, 18.7 percent of Hispanic Americans lacked health insurance.[241] The uninsured rate among Hispanic children was higher than children overall and increased to 9.2 percent in 2019.[242] That is more than double the rate of White children and higher than the uninsured rate of children living in poverty (7.4 percent).[243] A more recent analysis estimates that as a result of the pandemic recession, approximately 3 million Hispanic workers — approximately 13 percent of the Hispanic workforce — have lost employer sponsored health insurance.[244] The lack of full access to health insurance has made Hispanic Americans much more vulnerable to the spread of the coronavirus.

Detailing, understanding and reducing these inequalities is essential for improving the overall quality of life of the second largest ethno-racial group in the United States (second only to non-Hispanic White Americans). Recovery from this pandemic-

induced recession will require an effective public health response and more equitable and inclusive investments in both near-term COVID-19 relief programs and long-term economic expansion.

ACHIEVING ECONOMIC EQUITY

America made significant progress in reducing social and economic disparities in the latter half of the 20th century, as discriminatory policies like segregation, redlining, employment discrimination and restricted voting rights were outlawed. The long pre-pandemic expansion, begun over a decade ago during the Obama Administration and sustained by effective, forward-looking monetary policy from the Federal Reserve, temporarily appeared to reduce gaps in unemployment and increase wages for lower income workers, as if the problems of the past were soon to be solved.

Tragically, just as the *Report* was released it was becoming obvious that the pandemic would kill the longest expansion in U.S. history. The economic devastation of the pandemic instantly robbed Black, Hispanic and other disadvantaged workers of the employment gains they had made during the expansion, in addition to the extraordinarily heavy burdens placed on those communities by the disease itself. The outgoing Administration's legacy will be defined by its poor handling of the pandemic and reluctance to provide the American people with sustained economic relief. This lack of action will have lasting negative effects on communities throughout America, particularly those that are already disadvantaged.

There are few signs that these inequities will diminish on their own in the near future or that market forces alone will address them. It is unlikely that these persistent problems will be eliminated without concerted, societal efforts to solve them. Bold economic policies will be necessary to improve the economic status of Black

and Hispanic Americans moving into the future, but the first steps are to recognize just what progress has been made, and how much further we have yet to go.

When the pandemic subsides to a degree that Americans can return to some version of their former lives, it likely will leave in its wake even greater inequality. Policymakers will have to take into account the racial disparities in the coronavirus's impact; race-neutral policies may not be enough to undo the damage. If these conditions are not addressed aggressively, the deepening chasms in the United States could affect generations of Americans.

CHAPTER 4: MISSED OPPORTUNITIES TO SUPPORT WORKERS AND FAMILIES

The coronavirus pandemic has exposed the inadequacy of U.S. policies to support American workers and their families. Providing adequate paid sick leave, affordable child care and other family-centered policies are important during normal times, but they can become vital during a national health crisis or a major recession. These shortcomings have worsened the impacts of the pandemic, slowed the recovery from the economic crisis and will make it more difficult to achieve long-term growth.[245] Despite a clear need for policies that better support workers and families, the Trump Administration has done little to alleviate their profound burden.

The coronavirus pandemic has exacerbated the need for comprehensive paid sick leave policy. During public health crises, paid sick leave becomes an essential tool for keeping workers and communities healthy. However, one-in-four working Americans — approximately 32 million people — do not have any paid sick leave, and millions more have access to inadequate paid sick leave.[246] Those workers have a financial incentive to go to work even if they have symptoms of COVID-19. Providing adequate paid sick leave is not only essential policy for workers and families, it is also good economic policy as it helps businesses stay productive by preventing the spread of illness.

During the spring, one of every eight parents reported that they were forced to quit their job or reduce their hours because they did not have access to affordable child care.[247] Many women, who disproportionately bear the responsibility of caring for children, have been forced to leave the labor force.[248] America's failure to contain the coronavirus has also put extraordinary pressure on child care providers, which continue to suffer from reduced

enrollment as well as significantly higher costs for personal protective equipment and other safety measures. This is driving many child care providers out of business, crippling the sector even further. An undersupply of affordable child care may be one factor holding back the U.S. recovery and could have a negative impact on the economy well into the future.[249]

The risk of infection, social isolation and high unemployment has put extreme pressure on millions of American families and has had a devastating effect on mental health. A November survey found that more than four-in-ten American adults reported symptoms of mental illness —more than triple the rate reported in 2019.[250] In June, another well-regarded survey found that more than one-in-ten U.S. adults had considered suicide in the past 30 days, more than double what was reported in 2019.[251] A long history of research demonstrates that mental health can profoundly affect economic output and productivity.

Just as the Administration refused to pass an extension of desperately needed unemployment benefits, it has also failed to alleviate the struggle of American workers and families by undermining the paid sick leave provisions in Families First Coronavirus Response Act (FFCRA), ignoring the need for child care and turning a blind eye to the suffering of millions of Americans who are experiencing clinical symptoms of anxiety or depression.[252]

PAID SICK LEAVE

When the first wave of the coronavirus hit the United States in the spring of 2020, the nation's top public health officials said that strict social distancing measures were critical to contain the spread of the virus.[253] Many prominent economists and economic policymakers agreed that this was essential in the short run not only to save lives but to protect the economy in the long run.[254]

One important strategy for slowing the spread of the virus is to lessen the chance that Americans who continue to work during the pandemic give it to their co-workers. However, approximately 32 million working Americans do not have any paid sick leave, and millions more have access to inadequate paid sick leave.[255] Those workers have a financial incentive to go to work even if they have symptoms of COVID-19. Research on the 2009 H1N1 epidemic found that millions of Americans worked even while infected with the deadly disease.[256]

Providing adequate paid sick leave is essential worker and family policy, effective public health policy and good economic policy. For this reason, Congress passed paid sick leave provisions in the Families First Coronavirus Response Act (FFCRA).[257] President Trump signed the legislation, but ensured that it included loopholes covering much of the labor force. FFCRA exempts health care providers, emergency responders, workers at firms with more than 500 employees and workers at companies with fewer than 50 employees who applied to the Department of Labor for relief.[258] This not only struck a blow to some workers who would have received paid sick leave, but made it more likely that some would go to work even if infected with the coronavirus.

The United States is one of the only high-income countries without universal paid sick leave

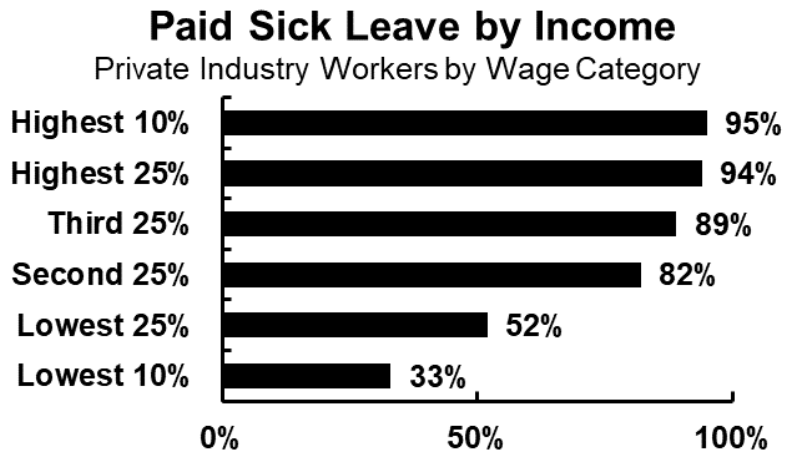
One-in-four working Americans does not have any paid sick leave, and millions more have access to inadequate paid sick leave.[259] In contrast, 22 of the highest income countries guaranteed an average of 10 days of paid sick leave in 2017. Other countries pay for these programs in a variety of ways. While some — such as Germany, New Zealand and the United Kingdom — rely on a mandate to require employers to pay employees sick leave, others —including Canada, France and Japan — leverage preexisting social insurance

for long-term leave to pay for short-term leave as well. Countries with the strongest collective bargaining agreements have some of the most generous paid sick leave guarantees.[260]

Note: Data collection variable between countries; Data excludes maternity leave; Data not available in 2017 for United Kingdom, Mexico, and Greece; No data available for the United States
Source: OECD Health Stats 2017, "Absense from work due to illness"

Americans' access to paid sick leave varies widely by industry, company size and income

While most employees of large U.S. corporations have paid sick leave, only two-thirds at companies with fewer than 50 employees have access to it. More than 90 percent of the top quarter of income earners have paid sick leave, while only around 30 percent of the poorest workers do.[261]



Source: Employee Benefits in the United States - March 2020, Bureau of Labor Statistics

Industries with the highest risk of exposure to the coronavirus are least likely to offer paid sick leave

Ironically, workers in some service sector industries who are at greatest risk of contracting the coronavirus have the least access to paid sick leave; in the foodservice industry, for example, only 45 percent have access. In March 2019, only 58 percent of service sector workers had access to paid sick leave. In March 2020, over 130 million jobs were in service-producing industries, making up almost 90 percent of civilian employment.[262] However, that number includes occupations like stockbrokers and computer programmers who can work from home and have some of the

highest rates of paid sick leave coverage. For this reason, the availability of paid sick leave among lower-wage service sector workers is a better metric of the paid sick leave access of those most likely to be exposed.

Research shows that workers will go to work sick even during an outbreak of a serious, contagious disease. During the 2009 H1N1 epidemic, almost 20 million workers went to work sick, infecting at least 7 million co-workers.[263] Approximately one-third of private sector employees who contracted the virus went to work anyway, while nine-in-ten public sector employees with the virus — who are far more likely to have paid sick leave — stayed home. Another study found that the absence of paid sick leave may have been responsible for an additional 5 million cases of H1N1.[264]

Providing paid sick leave is cost-effective for many employers

Contrary to some claims, many employers find that providing paid sick leave to employees has a net benefit — reducing "presenteeism," when workers go to work even though they are sick, lowering the spread of illness to other employees and preventing illness-based losses of productivity. Paid sick days cost employers on average $0.34 per hour per worker — just over 2 percent of all employee compensation.[265] Providing paid sick leave would have saved employers up to $1.88 billion per year in influenza-like illness absenteeism between 2007 and 2014, according to research published in the Journal of Occupational and Environmental Medicine.[266] Presenteeism is thought to make workers between 22 and 25 percent less productive.[267] Workers with paid sick leave are 28 percent less likely to be injured at work than those without paid sick leave.[268]

Multiple studies from several cities where employers are mandated to provide paid sick leave show that a majority of companies report that implementing paid sick leave was

worthwhile. One survey found that when a new paid sick leave mandate was implemented in Seattle in 2012, 70 percent of employers were supportive of the new policy.[269]A 2018 study by the Upjohn Institute, taking advantage of the spatial and temporal variation in new state and local paid sick leave mandates, also found no evidence that employment or wages were impacted, either negatively or positively, by paid sick leave mandates.[270]

The Administration undermined legislation to expand paid sick leave during the crisis

After passing the FFCRA, the Trump Administration undermined its paid leave provisions by expanding broad statutory exemptions through guidance from the Department of Labor, curtailing benefits for some health care workers and employees of small companies in addition to workers at large companies.[271] The Heroes Act, passed by the House of Representatives on May 15, 2020 addressed these exemptions by extending paid sick leave to millions of additional workers and filling gaps left by long-term federal policies and the emergency provisions included in the FFCRA.[272] The new legislation would protect all workers, regardless of the size of their employer or their job description. These positive steps, not yet acted on by the Senate and the Trump Administration, lay the groundwork for additional legislation to provide paid sick leave to American workers and help protect the public in this pandemic and the next one. The Trump Administration has failed to ease working families' decisions about illness and work, as well as improve public health, by expanding paid sick leave.

CHILD CARE

The coronavirus pandemic has forced large numbers of child care centers to close or scale back operations due to public health measures or parents' fear of exposing their children to the virus.

This has decreased the supply of affordable child care just as parents are forced to cope with increasing demands as a result of the crisis. The child care industry in the United States, which was weak even before the pandemic because of a lack of federal commitment, is at risk. This threatens to have a long-term impact both on working parents and their children as well as the broader economy.

The pandemic has threatened the viability of child care providers

America's failure to contain the coronavirus has put extraordinary pressure on child care providers, which have suffered from sharply reduced enrollments due to fear of contagion as well as significantly higher costs for personal protective equipment and other safety measures. More than four-in-five programs are serving fewer children than before the pandemic, with enrollment down by 67 percent on average.[273] Many have been forced to slash operations and lay off employees or close completely.

One sign of the impact on the availability of child care is the very high number of jobs lost during the pandemic. The economy shed more than 370,000 child care jobs in March and April alone, not counting the self-employed.[274] The number rebounded somewhat when strict public health measures were relaxed in most states in late spring, but by November there were still 173,000 fewer child care jobs than in February. The share of jobs lost in the child care industry is among the hardest hit sectors of the economy.[275]

Affordable child care already was in short supply

Even before COVID-19, more than four out of five parents of young children reported that finding quality, affordable child care in their area was a serious problem. More than half of families with young children live in "child care deserts," where the demand for child care far exceeds the supply.[276] American families that use

child care on average spend about one-fourth of their income on it.[277] In 30 states and Washington, D.C. the average cost of center-based infant care is more than the average cost of in-state college tuition. Between 2000 and 2020, the cost of day care and preschool rose nearly twice as much as inflation.[278]

Child care is far more expensive in the United States than in other developed countries, where it is seen as a public good. These higher costs are due to the fact that the U.S. federal government spends less than half as much on child care as a share of its gross domestic product as the average of other nations in the Organisation for Economic Co-operation and Development (OECD).[279] In some of those countries, free child care is widely accessible; in others, fees are means-tested and on average amount to only about 15 percent of average earnings.[280]

Because American parents are forced to bear a much larger portion of child care costs, access to care highly depends upon a family's economic status. Whereas universal, publicly-funded primary and secondary school education reduces inequality, a lack of accessible and affordable child care exacerbates it.

Accessible and affordable child care increases female labor force participation

The future growth of the U.S. economy depends in part on increasing the labor force participation rate, the share of the working-age population that is employed or looking for a job. From the mid-1960s through 2000, the U.S. labor force participation rate rose significantly, partly as a result of millions of women entering the workforce — mainly women with young children.[281] Women's labor force participation in the United States reached a peak in 2000 and then plateaued until the Great Recession when it declined slightly and settled at a lower plateau

until March 2020. It then fell precipitously as a result of the pandemic.[282]

Providing adequate and affordable child care is an important lever for increasing labor force participation — particularly for women, who shoulder a disproportionate share of child care responsibilities. The OECD countries that offer better family policies including affordable child care have higher rates of female labor force participation than the United States.[283] Recent research reveals that maternal labor force participation rises when affordable child care is available — as much as 5 to 10 percentage points when the care is available at no cost.[284] A study by the Economic Policy Institute found that capping child care expenditures at 10 percent of family income could increase overall women's labor force participation enough to boost GDP by roughly $210 billion (1.2 percent).[285]

The participation rate for mothers with school-age children declined by 3.3 percentage points between February and September, 2020, while it only declined 1.3 percentage points for fathers with school-age children.[286] As child care centers and schools closed or shifted to remote learning, mothers shouldered most of the burden. The resulting decline in women's participation is happening at time when women again comprised half of the U.S. workforce right before the pandemic began.[287] In April, for the first time since April 1986, women's labor force participation dipped below 55 percent.[288]

Child care provides long-term benefits to families and the economy

Parents who have access to affordable child care can remain in the workforce and earn needed income. Those who leave the workforce to care for children — disproportionately mothers — can suffer depressed earnings throughout their careers. The lack of

affordable child care is a major factor driving the gender wage gap, with the median woman earning 82 percent of what the median man earns.

Child care also provides an excellent return on investment. Economists at the Federal Reserve Bank of Minneapolis found that investments in child care and early education are "the most efficient means to boost the productivity of the workforce 15 to 20 years down the road."[289] Early education interventions are estimated to have produced returns of $3 to $17 for every dollar invested, with lower crime and teenage birth rates, higher high school graduation and college attendance rates and higher lifetime earnings.

Further weakening the U.S. child care system would erode women's economic progress

Women have borne an outsized share of the burden caused by school and child care closures, but they were also initially more likely to become unemployed during the pandemic. Approximately 60 percent of the jobs lost in the first wave of pandemic-induced layoffs were held by women.[290] Although women's unemployment rate is currently lower than men's, this is in part a function of women leaving the labor force in much higher numbers than men. Without reliable and affordable child care, mothers will not be able to go back to work — but they cannot pay for child care without the income they would earn from going back to work.

Women who do not drop out of the workforce altogether can still have their careers harmed when they make career decisions based on meeting family obligations such as spending more time at home caring for children or choose a job based on flexibility or commute times. As Betsey Stevenson, University of Michigan economist and former member of the Council of Economic Advisers to

President Obama, explains, "Those trade-offs end up giving them less opportunity, fewer opportunities for promotions or raises. That's why you see much bigger gender gaps for women by age 50 than you saw at age 30."[291]

Congress passed funding for child care, but additional support stalled in the Senate

The Families First Coronavirus Response Act and the CARES Act provided paid leave to many working parents and much-needed funding to states for child care subsidies to low-income families.[292] However, an estimated nearly $10 billion per month is needed to help child care providers safely provide care and prevent many others from being forced to shut down permanently. While the House of Representatives passed the Heroes Act and the Child Care is Essential Act, which would provide an additional $7 billion and $50 billion for Child Care Development Block Grants, respectively, the Administration has failed to support these bills and they have stalled in the Senate. Without this critical assistance, the nation's child care system is at risk, further reducing the supply of affordable child care, making it more difficult for parents to work and as a result slowing the economic recovery.

MENTAL HEALTH

The combined health and economic shocks of the coronavirus pandemic and the Trump Administration's failure to address them have led to an unprecedented mental health crisis. A recent poll finds that almost two-thirds of Americans fear that they or their loved ones will be exposed to the virus. Almost one-third of American adults are having trouble paying for usual household expenses. The situation likely may worsen substantially when emergency unemployment benefits expire for an estimated 12 million workers at the end of 2020.[293]

As a result of these pressures, a recent online survey of 99,000 households by the U.S. Census Bureau found that more than two-in-five of American adults report symptoms of depressive and/or anxiety disorder in November — more than triple the rate reported in 2019.[294] In June, another well-regarded survey found that more than one-in-ten U.S. adults had considered suicide in the past 30 days — more than double what was reported in 2019.[295] These rates are even higher among certain populations; more than one-in-two young adults, more than 1 in 5 essential workers and almost 1 in 3 unpaid caregivers had seriously considered suicide in the past 30 days.[296]

The pandemic's health and economic devastation has led to a dramatic increase in rates of anxiety and depression. This mental health crisis has placed a profound strain on families and the workforce, both of which can have lasting effects on society and the economy, even beyond the end of the pandemic.

Fear of the coronavirus, social isolation and acute economic pressure strain Americans' mental health

Since the beginning of the pandemic, President Trump has cast doubt on the severity of the pandemic, including telling the American people that the coronavirus isn't dangerous.[297] Even in October, as President Donald Trump left Walter Reed National Military Medical Center, he told Americans "not to be afraid" of the virus. However, a poll conducted in early October found that 65 percent of Americans fear that they or their loved ones will be exposed to the virus.[298] Since March, the coronavirus has kept millions of Americans isolated and in their homes, away from friends and family who for many are a critical emotional support network.[299]

A long history of research dating back to the Great Recession demonstrates that during times of economic crises, psychological

and social stress rise. As a result of the coronavirus recession, in late November, over 82 million adults — 35 percent of adults in the country — had difficulty paying for usual household expenses.[300] Almost 12 percent of adults —26 million people — did not have enough food to eat.[301] And over 17 million people were not current on rent or mortgage payments.

Nearly half of young adults report having symptoms of mental illness

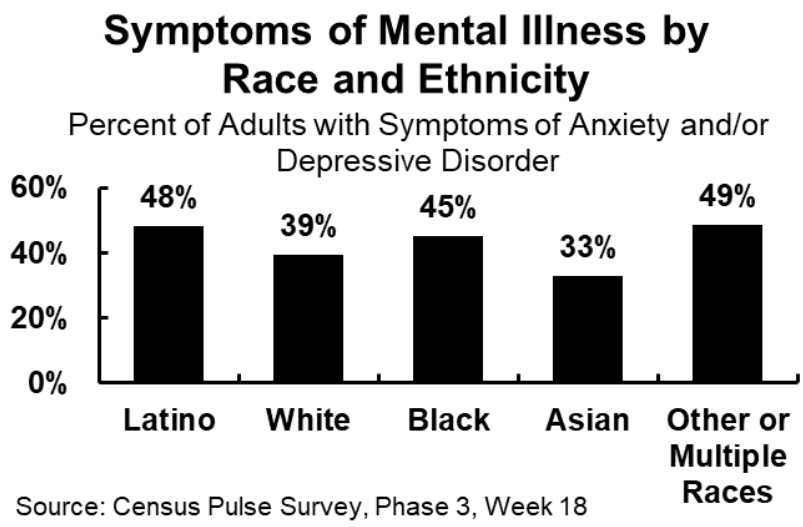
According to the Household Pulse Survey, the younger people are the more likely they are to report having symptoms of depressive and/or generalized anxiety disorder. [302] Young adults aged 18 to 29 report the highest rate of mental illness of any age group: almost six-in-ten (58 percent) report having symptoms of depressive and/or generalized anxiety disorder. [303] A survey by the Centers for Disease Control and Prevention conducted in June found that over 1 in 4 young adults aged 18-24 had seriously considered suicide in the 30 days prior.[304]

Hispanic and Black Americans report the highest rates of symptoms of mental illness

People of color are bearing the brunt of the pandemic's health and economic effects. For example, Blacks, Hispanics and Native Americans are almost twice as likely as Whites to test positive for COVID-19 and approximately four times as likely to be hospitalized for it. In late September, 46 percent of Black Americans and 43 percent of Hispanics reported that they had difficulty paying for usual expenses during the pandemic, compared to 25 percent of Whites.[305]

Partly as a result of these pressures, Hispanic and Black Americans are more likely to report having symptoms of mental illness than Whites. According to the Household Pulse Survey, in

early November, 48 percent of Hispanic Americans and 44 percent of Black Americans reported having symptoms of depressive and/or anxiety disorder, compared to 41 percent of Whites.[306] A CDC survey conducted in June found that Black and Hispanic Americans were at least twice as likely as Whites to have seriously considered suicide in the past 30 days.[307]



The pandemic will have a lasting impact on Americans' mental health

Researchers studying the Great Recession have found "long-lasting…declines in mental health" for those most affected.[308] In the year following Hurricane Katrina, the incidence of mental illness, post-traumatic stress disorder (PTSD) and suicidal ideation went up.[309] This suggests that the anxiety and depression caused and exacerbated by the COVID-19 pandemic may have a long-lasting impact on our society.

To tackle this unprecedented mental health crisis, the federal government's additional pandemic relief efforts must invest significant resources toward mental health care, especially in the

communities that need them the most. This can include dedicated relief funds to mental health providers to ensure they have the resources they need to keep their doors open. Efforts should also include expanding access to mental health care, such as mental health screenings, crisis/grief counseling and evidence-based crisis responses services. Given the elevated rates of reported mental illness among people of color and young adults, resources should target these communities. Special focus should also be given to essential workers and caregivers, both of whom surveys indicate are experiencing higher rates of mental illness. [310]

There is yet no clear end in sight for the coronavirus pandemic, which will continue to have devastating effects on public health and on the economy. While news of clinical trials on vaccines has been promising, there is a long way to go before a vaccine will be widely available to the general public. The Institute of Health Metrics and Evaluation projects more than 345,000 deaths by the end of 2020 under current circumstances and almost 540,000 by April 1, 2021.[311] The Federal Reserve expects the unemployment rate to remain above pre-pandemic levels until at least the end of 2021.[312] These intense stresses likely will have a growing and lasting impact on Americans' mental health.

CONCLUSION

The Trump Administration inherited a strong economy but failed to pursue policies that would sustain and strengthen the economic expansion. The current Administration will soon become the first presidency in the modern era to record negative job creation over the course of its term. There are 3 million fewer jobs today than when President Trump took office in January 2017.[313] As a result, President Trump will leave to his successor a much weaker economy than the one he inherited.

Even before the pandemic, the Administration's economic performance had been unspectacular. Its costly tax cuts, which were projected to increase the national debt by nearly $2 trillion, delivered benefits to the wealthiest Americans and large corporations but failed to produce the promised surge in economic growth or boost to middle-class wages. In 2019, just over a year after the tax cuts were enacted, the Federal Reserve had been forced to cut interest rates three times partly in response to the Administration's erratic trade policies.

The President's failed response to the coronavirus pandemic, in which he largely did the opposite of what was recommended by the nation's top public health experts and economists, has had a devastating economic impact on millions of Americans. The nation now faces a second wave of the pandemic that will be much worse than the first wave in the spring. His failure to contain the coronavirus will be his most lasting economic legacy.

Millions of Americans are experiencing hardship and hunger, are months behind on rent and face greater challenges in the future. According to the most recent Household Pulse survey from the Census Bureau, one-third of adults expect a loss of income in the

next four weeks, one-third have difficulty paying usual household expenses and one-third live in a household where eviction or foreclosure is somewhat or very likely in the next two months.[314] Parents of young children have paid an especially high price. According to a new study from the Urban Institute, 40 percent of parents with a child under age 6 reported they or their family experienced a loss of employment or work-related income during the first six months of the pandemic.[315]

The Administration's mismanagement of the coronavirus, and its grudging response to limit the resulting economic damage, have exposed and widened vast structural inequalities. Low-income workers and people of color have been most harmed by COVID-19 and the ensuing recession. They are more likely to be exposed to the virus, to be hospitalized and to die from it.

Unemployment rates for workers of color spiked in the spring and today remain substantially higher than rates for White workers. Black and Hispanic households report not getting enough to eat at twice the rate of White households.[316] Labor force participation rates for women, who recently had become the majority of the workforce, have dropped precipitously, in April reaching the lowest level since 1986. Mothers exited the workforce at much higher rates than fathers to care for children whose child care centers have been shuttered or whose schools shifted to remote learning.

While Congress's fiscal response in the spring, including support for small businesses, unemployed workers, homeowners and renters, and state and local governments, paired with the Federal Reserve's aggressive monetary policy have mitigated the worst impacts of the crisis, much more needs to be done to ensure the economy does not fall into a protracted recession. As Treasury Secretary-designate Janet Yellen noted, "Inaction will produce a self-reinforcing downturn causing yet more devastation."[317]

By all objective measures — job growth, unemployment, gross domestic product — President Trump leaves the economy in much worse condition than he found it. However, the numbers do not tell the whole story — his failure to use the power of the presidency to fight the coronavirus will weigh down the U.S. economy for years to come. His successor will be left with an extraordinary challenge — to reverse the failures of the Trump Administration. He must also move beyond them to ensure that the United States builds back better from this crisis, fully utilizing the talents and resources of all of its people to build an economy that is fairer, stronger, more inclusive and more resilient.

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Per the Office of Management and Budget (OMB), "Hispanic or Latino" refers to "a person of Cuban, Mexican, Puerto Rican, Cuban, South or Central American, or other Spanish culture or origin, regardless of race." Some others use the term "Hispanic" to include both Spanish and non-Spanish speaking countries of Latin America, while some use "Hispanic" only to refer to those of Spanish origin or descent. Since 2000, the U.S. decennial census has asked all Americans if they are of Hispanic, Latino or Spanish origin. In most federal data sources, both "Hispanic" and "Latino" are inclusive of Americans that self-report as "Hispanic," "Hispanic" or "Spanish origin." "Latino" is a universal or masculine identifier; "Latina" is a feminine identifier.

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Hispanic and Hispanic American are used in this report. Hispanic is often used interchangeably with the Spanish-language term, Latino and the gender-neutral term, Latinx. In historical data series from official statistical agencies, sources often use the term Hispanic. Other and more recent sources may use Latino, Latinx or other terms for Americans of Latin American or Spanish descent.

Per the Office of Management and Budget (OMB), "Hispanic or Latino" refers to "a person of Cuban, Mexican, Puerto Rican, Cuban, South or Central American, or other Spanish culture or origin, regardless of race."[306] Some others use the term "Latino" to include both Spanish and non-Spanish speaking countries of Latin America, while some use "Hispanic" only to refer to those of Spanish origin or descent. Since 2000, the U.S. decennial census has asked all Americans if they are of Hispanic, Latino or Spanish origin. [306] In most federal data sources, both "Hispanic" and "Latino" are inclusive of Americans that self-report as "Hispanic," "Latino" or "Spanish origin." "Latino" is a universal or masculine identifier; "Latina" is a feminine identifier.

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