Subcommittee on Select Revenue Measures, *Committee on Ways and Means*

Hearing on *"The Consequences of Inaction on COVID Tax Legislation"*

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I want to begin by commending you on the swift action that Congress took in March in passing three bills that together provided spending and tax provisions to support American families and businesses. This swift fiscal response combined with a similarly swift monetary policy response by the Federal Reserve System is the reason that we have only 8.4% unemployment today and have been able to bring back half the jobs that were lost as the pandemic descended upon us. However, closing the rest of the gap and preventing further damage requires further fiscal and monetary policy action. The Federal Reserve has made it clear that they will be doing their part, but to preserve our economy we need all of our policy tools working in concert: spending, tax, and monetary policy together can get us back to an American economy that is as strong as our pre-pandemic economy.

Let me be jump straight to the most important issue facing the committee today: the tax policies outlined in the HEROs Act. These policies could play an essential role in preventing extreme hardship among American families, in stabilizing the economy, and putting us on a path toward greater prosperity. In my testimony I will explain the current state of the economy, what is required to make further progress, and my anticipated impact of specific tax policies.

Slamming on the breaks

Let me start with how we got to where we are today. The arrival of the novel coronavirus in the United States led to sharp declines in spending and work that came even before state stay-at-home orders were enacted.[1] Spending and employment in the country contracted at a faster pace than at any other time in history. As fear of the virus spread in early March consumers began to cut back spending and employers followed by laying off workers. More than 31 million applications for unemployment insurance were filed during March and April, and by mid-April more than 18.1 million people reported that they were on temporary layoff.[2] Most of those jobs would have continued without the pandemic and in April, more than 90 percent of those laid off anticipated being recalled to their job. Many of the self-employed found that they were no longer able to provide their services and were left, along with other business owners, to

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1. Goolsbee and Syverson (2020) find that legal restrictions account for only 7 percentage points of the 60-percentage-point decline in consumer traffic. Kahn et al. (2020) find that job postings deteriorated substantially across the board, rather than more in states with shutdown orders. Similarly, Rojas et al. (2020) find that unemployment insurance claims rose across the board.

2. There were 31.2 million initial claims for unemployment insurance filed between March 1 and May 2, not seasonally adjusted. In comparison, 1.8 million were filed over a similar period in 2019. Bartik et al. (2020) find that nearly all of the decline in hours worked occurred between March 14 and March 28. Cajner et al. (2020) find that aggregate employment fell by 21 percent through late April before beginning to rebound.

reexamine their business models to assess how likely it is that they will be able to resume pre-pandemic operations in the medium term.

The job loss and unemployment witnessed early on was unlike a normal recession. In a normal recession, it takes time for employers to realize that demand for their product has declined or that their business model is not robust enough to be sustainable in a weak economy. Only then do employers begin to lay off workers. This explains why we are currently witnessing workers being laid off, while other workers are being recalled from temporary layoff. We are simultaneously witnessing businesses trying to reopen safely and bring employees back to work, while others are realizing that there is simply not enough demand for their product to maintain their payroll.

Over the past few months many data sources have shown good news—we are moving in the right direction. But I urge you to pay attention to the levels—13.5 million people unemployed, more than 11 million jobs still lost, and roughly 30 million people receiving some form on unemployment insurance reflecting a staggering ongoing shortage of jobs, hours, and customers.

Do not be distracted by the improvements. While we should all be grateful that nearly 11 million jobs have been resumed, we have so far simply harvested our low hanging fruit. The number of people on temporary lay-off has now declined by two-thirds, with many people recalled to jobs they already had. In fact, more than all of the employment growth over the past few months has been from a reduction in the number of people on temporary layoff.

Yet underneath the return to work, there has been growing permanent job loss. The number of people who have permanently lost jobs has soared. In April, 78% of the unemployed were on temporary layoff, now only 45% are. Permanent job loss is much harder to reverse than a temporary layoff. Recent estimates suggest 400,000 businesses have closed. They cannot bring their workers back. Some workers have been forced by school closures to stay home to care for children, while others do not feel that they can safely resume in-person work. The pace of hiring has slowed and those who remain on temporary layoff are employed by some of the hardest hit businesses—those that have yet to be able to reopen. Despite the recent increases in employment, more than 800,000 people a week are continuing to lose jobs and apply for unemployment insurance for the first time. This flow rate into unemployment is as great as the worst week in the 2008 recession. Make no mistake, the economy has a very long way to go to recover and it will not get there very quickly on its own.

The Disparate Impact of the Recession

Low-wage workers have borne the brunt of the economic pain of the pandemic. Because low-wage work is more likely to involve in-person tasks, these workers have faced a double hit from the pandemic. Low-wage workers and those in lower income communities have experienced worse health outcomes, more food insecurity, and greater unemployment. Many low-wage workers were laid off, while those who kept working may face new health risks with little additional compensation. While employment has recovered across the spectrum, the unemployment rate among those with only a high school degree is twice that of those with a college degree. Similarly, the unemployment rate among African-American workers is nearly twice that of white workers.

There have also been striking disparities along gender lines. Typically in a recession men bear the brunt of job-losses because they are more likely to work in highly cyclical industries. However, the pandemic led to layoffs in healthcare, education, childcare, and leisure and hospitality. All industries in which the women are disproportionately likely to work. Not only are women concentrated in the industries that were hardest hit, but they bore more than their share of the layoffs. The impact on women has been exacerbated by the childcare crisis as schools and childcare facilities closed. While these effects should be felt equally among parents, research has shown that women are bearing the larger burden and are continuing to face difficult trade-offs between income and care for children. The effect of the childcare crisis on the economy has yet to be fully felt and will likely be with families and the country for decades to come.

Supporting the Families and Businesses

The policies enacted in the CARES Act allowed many people to keep paying for housing, food, and other essential items. Concern about the expanded unemployment insurance benefits has proven to be unfounded by research done by both conservative and progressive economists. When there are not enough jobs, when workers need to stay home, disincentive effects are highly muted. More importantly, the fear of not having a job in the long-run is a much greater incentive than unemployment insurance incentives. The CARES Act and other actions provided needed support for families and the timely and targeted approach of many of the policies ensured that fiscal policy was incredibly effective. To understand why fiscal stimulus was so essential realize that most families do not have the savings necessary to fill in for lost income, particularly when it occurs with little notice.

The $1200 payments to families played an important role in the economy. Household incomes rose in April and, in return, retail sales rose strongly in May. However, consumer spending has yet to return to pre-pandemic levels and many fear a wave of evictions as landlords expect out-of-work individuals to resume paying rent. In order to foster a return to work we need to support a continued return to spending.

Long-run risks

There are two important long-run risks that you must confront. The first is a growing group of displaced workers. Labor force participation which fell to a low last seen in the early 1970s has only recovered to a low last seen in the mid-1970s. Furthermore, each month since the pandemic began we have seen growth in longer run unemployment. There are now over 8 million Americans who have been unemployed for 15 weeks or longer, compared to under 2 million when the pandemic began. Long-term unemployed and detached workers are much harder to reintegrate into the labor market and they suffer permanent scarring that leads to a lifetime of lower earnings.

A second source of longer term unemployment will come as parents—particularly women—are forced out of the labor force to care for children who are not able to physically attend school and many of whom are suffering from the loss of normal play and socialization, lower household incomes, and greater stress in their communities. Parents struggling to help their children are sacrificing their own careers and long-term labor market prospects. This is not about losing a few months or years of income; it’s about putting those caring for children on a lower earnings trajectory for the rest of their lives. If we do not find a way to help these parents, not only will they suffer, but their loss is our loss as it permanently damages our potential as an economy.

One essential way to help parents and reduce the risk to ensure that you fight as hard for childcare and schools as you have for the airlines. The most important industry in a modern economy is high-quality child-care and education. The pandemic has highlighted the fact that child care is not a women’s issue, it is not a personal issue, it is an economic issue; parents cannot fully return to work until they are able to ensure that their children can safely return to child-care and educational arrangements. This crisis is far from over. We are letting the whole child care system erode in such a way that it’s not going to be there for us when we are fully ready to go back. You’re seeing child care centers that can’t stay in business. They can’t figure out how to reopen. They can’t keep their employees on staff. They’re letting people go. State budget crises will likely lead to layoffs of teachers, reductions in after-school programs, and other essential services. These layoffs will come at a time that our children need our help the most. This is our second risk. If you fail to support the learning and social-emotional development of our children they will never reach their potential. If they don’t reach their potential, we as a nation do not reach our potential. Research has shown that every $1 spent on early childhood education returns $8 to the tax payer. We cannot afford for you to ignore the needs of our children. If the needs of children—from hunger, to care, to education—are not the most important priority in your next bill then I would urge you to reexamine your priorities.

Policies to Pass Now to Minimize the Support Families, Businesses, and the Economy

Please consider a much needed a set of tax incentives and other policies that encourage employers to hire back those who are still out of work, including those who are taking time out of the labor force to deal with schools being closed. We need greater financial support for emergency child care grants to make sure there's child care in every community for workers who have to do in-person jobs. We need to make it easier for parents to pay for high-cost high-quality childcare. We must reduce income disparities by expanding policies that support lower wage workers. And it is clear that millions of workers will need to continue to rely on income support.

Let me comment on a few extremely high priority policies already proposed in the Heros Act.

- Make work pay: Expand the EITC for workers without qualifying children

Recent research published in one of the most prominent economic journals showed the importance of the minimum wage in reducing racial earnings and income gaps.[3] Unfortunately, we have let the real purchasing power of the minimum wage decline. While this committee does not set the minimum wage, the Earned Income Tax Credit is another way to set a floor on what hard-working Americans receive for their efforts. By supporting the incomes of those who A diverse group of scholars across the political spectrum have called for expanded Earned Income Tax Credit (EITC) for families long before the crisis. However, the current crisis puts a new urgency behind support for expanding these programs. Conservative scholars in a letter to Congressional leaders noted that the EITC and the Child Tax Credit are two programs that "are proven to be the most effective programs at lifting Americans out of poverty"[4]

- Support families: Increase the amount and the refundability of the Child Tax Credit and the refundability of the Child and Dependent Care Tax Credit.

Similarly, a group of poverty scholars has recently expressed their support for the expansion of the Child Tax Credit arguing that it is "the single best things the nation can do to confront child poverty." The National Academies of Sciences, Engineering, and Medicine found that expanding the Child Tax Credit would have the largest impact on reducing child poverty of any of the policies the committee examined.

- Increase access to paid sick, medical, and family leave

The Heros Act has several tax provisions that would increase access to paid leave, which is needed more than ever as people face new health risks and our communities desperately need people who are sick to stay home. The United States is the only industrialized country attempting to combat COVID without any national policies providing paid leave. It is holding us back and causing much more harm than these provisions cost.

[3] Minimum Wages and Racial Inequality∗ Ellora Derenoncourt (UC Berkeley) Claire Montialoux (UC Berkeley), forthcoming Quarterly Journal of Economics

[4] https://ifstudies.org/blog/conservative-scholars-and-leaders-call-for-expanded-eitc-and-ctc-for-families

Summary

These tax credits enjoy such uniform, bipartisan support for the simple reason that they work. During a time of rising debt, the effectiveness of policy must be considered. Expanding policies that support work, families, and children have the potential to reap returns to taxpayers in the long-run that offset their costs.

The solution to preventing large-scale permanent scarring, particularly among women, is to support families, ensure that child-care centers do not go bankrupt and that they have the resources to adapt their buildings and practices to new health protocols like improved air flow, sanition, and physical distancing, and to encourage workplace flexibility. In addition, job-protected paid sick leave as well as medical and family leave is more important than ever. People will continue to get COVID, and will need to quarantine themselves and care for others. Keeping parents, caregivers, and those who get sick integrated with the labor force will be key to minimizing the scarring effects of the pandemic. In the long run, the American economy must build better on-ramps to employment for those who take a period out of the labor market if the economy is to reach its full potential.