

United States House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, D.C. 20515

July 1, 2020

## Memorandum

**To:** Members, Committee on Financial Services  
**From:** FSC Majority Staff  
**Subject:** July 7, 2020, “Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting Workers’ Pay during COVID-19”

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The Subcommittee on National Security, International Development, and Monetary Policy will hold a virtual hearing entitled, “Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting Workers’ Pay During COVID-19” on Tuesday, July 7, 2020 at 12:00 p.m., on the virtual meeting platform Cisco Webex. This single-panel hearing will have the following witnesses:

- **Lisa D. Cook**, Professor, Department of Economics, James Madison College, Michigan State University
- **Lily Eskelsen García**, President, National Education Association
- **Joseph Stiglitz**, Professor of Economics, Columbia University
- **Diego Zuluaga**, Associate Director of Financial Regulation Studies, Cato Institute

### Overview

The coronavirus (COVID-19) pandemic continues to pose a significant public health and economic crisis. Congress has passed a series of bills in response to the crisis that have helped a variety of individuals, workers and businesses, though there have been criticisms that these efforts have had various shortcomings and have been insufficient to meet the needs of everyone who has been adversely affected by this crisis through no fault of their own. As several programs are scheduled to soon expire, such as the enhanced unemployment insurance support, policymakers can consider extending or modifying existing programs or considering alternative ones, such as a paycheck guarantee program modeled after approaches being utilized by other countries. Below is background on the economic effects of the COVID-19 pandemic, a brief summary of the federal response to date, and a review of alternative proposals.

### Economic Effects of the COVID-19 Pandemic

The COVID-19 pandemic has had a profound effect on the economy. The April jobs report by the Bureau of Labor Statistics (BLS) was the worst in recorded history, with 20.5 million jobs lost.<sup>1</sup> With many businesses slowly initiating the re-opening process, the BLS’ May jobs report showed a unemployment rate of 13.3 percent and that 2.5 million jobs were added back into the economy. However, on June 10, Federal Reserve Chair Jerome Powell pointed out that the 13.3 percent figure “likely understates the extent of unemployment” and “accounting for the unusually large number of workers who reported themselves as employed but absent from their jobs would raise the unemployment rate by about 3 percentage points,”<sup>2</sup>

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<sup>1</sup> “How Bad is Unemployment? Literally Off the Charts,” *New York Times*, (May 8, 2020), <https://www.nytimes.com/interactive/2020/05/08/business/economy/april-jobs-report.html>.

<sup>2</sup> “Transcript of Chair Powell’s Press Conference - Federal ....” 10 Jun. 2020, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20200610.pdf>. Accessed 25 Jun. 2020.

Further, any economic recovery that may be occurring is being experienced unevenly, and low- and moderate-income communities are in an especially vulnerable and precarious position. For example, the May jobs report also showed that unemployment among Black workers had actually grown to 16.8%.<sup>3</sup> While the NASDAQ hit a new high in June,<sup>4</sup> the employment-to-population ratio stands at 52.8%, meaning nearly half of US adults do not have a job.<sup>5</sup> 1.5 million public sector employees have been laid off since March,<sup>6</sup> and state governments are projected to face a combined budget shortfall of \$615 billion over the next year.<sup>7</sup>

Public health and economic experts have also emphasized that further economic recovery will depend on the success of efforts to contain the virus. Chair Powell, for instance, has stressed that “a full recovery is unlikely to occur until people are confident that it is safe to reengage in a broad range of activities.”<sup>8</sup> Powell has also emphasized the need for further fiscal support and congressional action. Testifying before the House Financial Services Committee on June 17, Powell said, “There are something like 25 million people who are still dislodged from their job in full or in part due to the pandemic. I would think it would be a concern if Congress were to pull back from the support that it’s providing too quickly.”<sup>9</sup>

### **COVID-19 Resurgence in the United States and a “second wave”**

According to the Centers for Disease Control and Prevention, confirmed COVID-19 cases and activity in the United States peaked in March and April.<sup>10</sup> Although there was an overall national decline in COVID-19 fatalities and activity through the course of the late spring, the Director of the National Institute of Allergy and Infectious Diseases, Dr. Anthony Fauci, has called the possibility of a resurgence in cases and deaths in the fall “inevitable.”<sup>11</sup> Even before this expected resurgence, however, there have been sharp increases in confirmed new COVID-19 cases in various regions throughout the United States. On June 30, 48,000 confirmed new cases were reported in the United States, surpassing previous record highs for the fourth time in one week.<sup>12</sup> During the final week of June, seven states set new records for confirmed new cases, with particularly severe outbreaks in Arizona, Texas, and Georgia. On June 29, the World Health Organization Director-General Tedros Adhanom Ghebreyesus warned that the COVID-19 pandemic was

<sup>3</sup> “Unemployment rate improved in May, but left black workers behind,” *Vox*, (June 6, 2020), <https://www.vox.com/policy-and-politics/2020/6/6/21282611/black-workers-left-behind-unemployment>

<sup>4</sup> “NASDAQ hits 10,000 for the first time ever, closes at record high as Apple and Amazon soar,” *Business Insider*, (June 9, 2020), <https://markets.businessinsider.com/news/stocks/nasdaq-hits-10000-first-time-ever-tech-shares-rally-stocks-2020-6-1029294365>

<sup>5</sup> “Employment to Population Ratio,” *Federal Reserve Bank of St. Louis*, (June 5, 2020), <https://fred.stlouisfed.org/series/EMRATIO>

<sup>6</sup> “How COVID-19 is driving big job losses for state and local government,” *Pew Charitable Trusts*, (June 16, 2020), <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/06/16/how-covid-19-is-driving-big-job-losses-in-state-and-local-government>

<sup>7</sup> “States continue to face large shortfalls due to COVID-19 effects,” *Center for Budget and Policy Priorities*, (June 15, 2020), <https://www.cbpp.org/research/state-budget-and-tax/states-continue-to-face-large-shortfalls-due-to-covid-19-effects>

<sup>8</sup> “Transcript of FOMC Press Conference,” *Board of Governors of the Federal Reserve System*, (June 10, 2020), <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20200610.pdf>

<sup>9</sup> “Monetary Policy and the State of the Economy,” *House Financial Services Committee*, (June 17, 2020), <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=406614>

<sup>10</sup> COVID View, *Centers for Disease Control and Prevention*, (June 26, 2020), <https://www.cdc.gov/coronavirus/2019-ncov/covid-data/covidview/index.html>

<sup>11</sup> “Another wave of coronavirus will likely hit the US in the fall,” *CNN*, (May 2, 2020), <https://www.cnn.com/2020/05/02/health/coronavirus-second-wave-fall-season/index.html>

<sup>12</sup> “Coronavirus Live Updates,” *New York Times*, (July 1, 2020), <https://www.nytimes.com/2020/07/01/world/coronavirus-live-updates.html>

“speeding up” and that the “worst is yet to come.”<sup>13</sup> The uptick has led at least 16 states to pause or reverse economic re-opening measures, adding uncertainty to long-term prospects for economic recovery.<sup>14</sup>

### **Congressional Response to COVID-19 Crisis**

On March 27, the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act was signed into law. The CARES Act provided a more than \$2 trillion in federal aid to individuals, businesses, and state and local governments. Key provisions included \$150 billion in grants to state and local governments to assist with public health emergency costs, a one-time stimulus payment of \$1,200 per eligible adult and \$500 per eligible child,<sup>15</sup> an extension of unemployment insurance (UI) benefits with a supplemental \$600 per week for up to four months, and the establishment of a Paycheck Protection Program (PPP) to provide forgivable loans to small businesses. The CARES Act also authorized \$500 billion in emergency assistance to small, mid-sized, and large businesses and non-profit organizations, as well as state, territory, and local governments. For a full description of these emergency lending programs, please see the memo for the June 17 hearing on “Monetary Policy and the State of the Economy,”<sup>16</sup> and the June 30 hearing on “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response.”<sup>17</sup>

Several of the Fed’s emergency lending facilities, including the Main Street Lending Program (MSLP) and the Primary Market Corporate Credit Facility (PMCCF), have become operational since Chair Powell’s June 17 testimony. Although both facilities are facilitating billions of dollars in emergency assistance to businesses, they are not required to comply strictly with the restrictions on workforce maintenance, executive compensation, stock buybacks, and dividend payments specified in the CARES Act. Corporations receiving assistance through the PMCCF are not considered recipients of “direct loans,” and are therefore exempt from CARES Act restrictions. Workforce maintenance requirements were applied to businesses receiving loans through the MSLP, although participating businesses only need to affirm that they have made “commercially reasonable efforts” to maintain their workforce.

Economic studies have found that the federal aid in the CARES Act has been helpful in reducing poverty and lifting incomes, even as the unemployment rate rose dramatically.<sup>18</sup> Although the economy’s prospects remain highly uncertain, several CARES Act interventions have either been exhausted or are set to expire. On June 30, the PPP stopped accepting loan applications and Treasury Secretary Mnuchin testified that \$150 billion for state and local governments had been completely disbursed.<sup>19</sup> Later this year,

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<sup>13</sup> “WHO Chief on COVID-19 Pandemic: ‘The Worst is Yet to Come,’” *NPR*, (June 29, 2020),

<https://www.npr.org/sections/coronavirus-live-updates/2020/06/29/885049691/who-chief-on-covid-19-pandemic-the-worst-is-yet-to-come>

<sup>14</sup> “Some U.S. states return to previous restrictions to slow surge of coronavirus cases,” *CNN*, (June 29, 2020),

<https://www.cnn.com/2020/06/29/health/us-coronavirus-monday/index.html>

<sup>15</sup> The CARES Act Economic Impact Payments (EIPs) equal \$1,200 per eligible individual (\$2,400 for married taxpayers filing a joint tax return) and \$500 per eligible child and the amounts phase out at a rate of 5% of adjusted gross income (“AGI”) above \$75,000 (\$112,500 for head of household filers and \$150,000 for married joint returns). For more information, see the Financial Technology Task Force Hearing entitled, “[Inclusive Banking During a Pandemic: Using FedAccounts and Digital Tools to Improve Delivery of Stimulus Payments](#),” (June 11, 2020).

<sup>16</sup> “Monetary Policy and the State of the Economy,” *House Financial Services Committee*, (June 17, 2020),

<https://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=110801>

<sup>17</sup> “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response,” *House Financial Services Committee*, (June 30, 2020), <https://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=110839>

<sup>18</sup> “Vast Federal Aid Has Capped Rise in Poverty, Studies Find,” *New York Times*, (June 21, 2020),

<https://www.nytimes.com/2020/06/21/us/politics/coronavirus-poverty.html>

<sup>19</sup> “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response,” *House Financial Services Committee*, (June 30, 2020), <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=406688>

enhanced UI benefits expire on July 31, the federal eviction moratorium ends July 25, the foreclosure moratorium ends August 31 and the suspension of federal student loan payments expires on September 30.

Fiscal programs such as UI and SNAP benefits are often referred to as “automatic stabilizers,” and economists have found them to be effective in blunting the impact of recessions and reducing economic volatility.<sup>20</sup> Proposals to make these stabilizers automatic and contingent upon economic conditions – such as economist Claudia Sahm’s proposal to issue stimulus payments based on economic indicators of recession and recovery – have garnered significant attention.<sup>21</sup> Former Federal Reserve Chairs Ben Bernanke and Janet Yellen have both endorsed a proposal to continue the CARES Act’s enhanced UI benefits until the 3-month average of the national seasonally adjusted unemployment rate has fallen for two straight months and is below 5.5%.<sup>22</sup> The Congressional Budget Office (CBO) projects that extending UI benefits through 2021 would result in higher wages and economic output.<sup>23</sup> According to a former Treasury Department economist, allowing UI benefits to expire on July 31 “would be equivalent to getting a 50 to 75 percent pay cut overnight to a huge chunk of the American population.”<sup>24</sup>

### **Heroes Act**

On May 15, the House passed H.R. 6800, the Heroes Act, to provide an additional \$3 trillion to support the economy during the pandemic. The bill would provide an additional \$500 billion to state governments and \$375 billion to local governments. The Heroes Act would also authorize another round of stimulus payments, extend enhanced UI until through January 2021, and increase the maximum Supplemental Nutritional Assistance Program (SNAP) benefit by 15 percent through September 30, 2021. The Heroes Act would provide \$175 billion to support renters and homeowners, replace the CARES Act’s moratorium on evictions in federally assisted rental housing with a 12-month moratorium for all renters and extend the moratorium on foreclosures and forbearance protections to all homeowners. It would also provide additional funding for fair housing enforcement, housing counseling, homeless assistance, and other federally assisted housing programs to address COVID-related housing needs.

### **International Approaches to Paycheck Support**

There have been proposals made in Congress, like the H.R. 6918, the Paycheck Recovery Act (PRA), sponsored by Rep. Pramila Jayapal (D-WA),<sup>25</sup> that are modeled after what other countries are doing to keep employees connected to their employers through the course of the COVID-19 pandemic. Australia and New Zealand’s programs resemble PRA most closely. Under their programs, any employer that has

<sup>20</sup> “The role of automatic stabilizers in the U.S. business cycle,” *McKay and Reis*, (August 2012), <https://economics.yale.edu/sites/default/files/mckay-130402.pdf>

<sup>21</sup> “Sahm Rule Enters Fed lexicon as fast, real-time recession flag,” *Reuters*, (October 4, 2019), <https://www.reuters.com/article/us-usa-fed-sahm/sahm-rule-enters-fed-lexicon-as-fast-real-time-recession-flag-idUSKBN1WJ12J>

<sup>22</sup> “Leading Economists And Policy Experts Back Worker Relief And Support Act,” *Joint Economic Committee Democrats*, (May 5, 2020), <https://www.jec.senate.gov/public/index.cfm/democrats/2020/5/leading-economists-and-policy-experts-back-worker-relief-and-support-act>

<sup>23</sup> “The Benefits of Extending Enhanced Unemployment Compensation,” *House Ways and Means Committee*, (June 5, 2020), <https://waysandmeans.house.gov/media-center/press-releases/benefits-extending-enhanced-unemployment-compensation>

<sup>24</sup> “Trump, Congress face economic decisions over aid as country is rocked by protests,” *Washington Post*, (June 2, 2020), <https://www.washingtonpost.com/business/2020/06/02/congress-protest-coronavirus-aid-economy/>

<sup>25</sup> There are other variations of this proposal offered by other Members of Congress. For example, *see* <https://www.sanders.senate.gov/newsroom/press-releases/sanders-warner-jones-and-blumenthal-unveil-sweeping-policy-to-guarantee-workers-paychecks> and <https://www.hawley.senate.gov/rehire-america>.

experienced a certain percentage of revenue loss as a result of the pandemic is made eligible for a subsidy based on the number of people they employ.<sup>26</sup> In the United Kingdom, the government is covering 80% of wages for employers, and in the Netherlands, the government is covering 90% of wages. An analysis by the Brookings Institution compared government responses to COVID-19 in 20 wealthy countries,<sup>27</sup> governments like Israel and Canada that have taken a similar approach to the United States by increasing unemployment insurance benefits and offering assistance to businesses through programs like the PPP have seen the largest spikes in unemployment claims.<sup>28</sup> Mass unemployment has not occurred in any of the governments offering some form of paycheck guarantee or payroll subsidy, although only Australia and New Zealand have completely avoided an increase in jobless claims.<sup>29</sup>

## Legislation

- **H.R. 6918, Paycheck Recovery Act of 2020 (Jayapal).** The Paycheck Recovery Act (PRA) authorizes the federal government to administer a worker retention program through the Internal Revenue Service (IRS). Under the PRA, all public and private employers, as well as independent contractors, domestic workers, and gig workers, that have seen a 10 percent or greater revenue loss since 2019, would be eligible for a three-month lump sum grant payment to maintain their workforce at current wages and benefits. The IRS is authorized to run the program for three months, with an automatic renewal taking place until the unemployment has been below 7 percent for three consecutive months.

Employers would qualify for larger grants if they re-hired any workers who were laid off or furloughed after March 1, 2020. In addition to covering payroll and benefits, grants may be used to cover operating expenses, so long as those operating expenses are related to COVID-19. The PRA directs the IRS to use each employers' 2019 tax return to determine what percentage of their revenue they have lost in 2020, and to compensate them accordingly. The PRA also directs the Treasury Secretary to convert other forms of federal assistance (e.g. Employee Retention Tax Credit, loans made through the Paycheck Protection Program, the Federal Reserve's Main Street Lending Program, etc.) into PRA grants. If an employee voluntarily leaves their job after a grant has been disbursed to an employer, the employer must return the amount of the grant that that employee's earnings were meant to compensate for. The PRA also instructs the Treasury Department's Inspector General to conduct a full audit of all program recipients within one year, and it would create a 12-member oversight board.<sup>30</sup>

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<sup>26</sup> "The effect of COVID-19 and disease suppression policies on labor markets: A preliminary analysis of the data," Brookings Institution, (April 27, 2020), <https://www.brookings.edu/research/the-effect-of-covid-19-and-disease-suppression-policies-on-labor-markets-a-preliminary-analysis-of-the-data/>

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> "The Effects of COVID-19 on the international labor market: An update," *Brookings Institution*, (May 27, 2020), <https://www.brookings.edu/research/the-effects-of-covid-19-on-international-labor-markets-an-update/>

<sup>30</sup> For more information, see <https://jayapal.house.gov/2020/05/19/jayapal-introduces-paycheck-recovery-act/>