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"The Challenges of building a sustainable economy in the wake of the Coronavirus Crisis"

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Thank you, Chair Clyburn and Ranking Member Scalise, for this invitation to give testimony before your subcommittee today on the issue of rebuilding America's economy in the wake of the novel coronavirus. I am happy to offer this testimony on behalf of the AFL-CIO, America's house of labor, representing the working people of the United States; and based on my expertise as a professor in Howard University's Department of Economics.

My testimony will focus on some immediate needs to be addressed following the enactment of the American Rescue Plan. But it will also address some of the issues that the current crisis has made clear. The scope and size of the American Rescue Plan clearly show the cumulative costs to our economy of high levels of inequality and our lack of attention to addressing both inequality within the market economy, and in our tools to address inequality through our fiscal policies. As a nation, our economy cannot afford workers earning less than $15 an hour, nor can we afford making our workforce subject to "casualization;" dodging our Wage and Hour laws through misclassifying workers as independent contractors. We have gone too long with a falling share of national income going to workers, disconnecting national prosperity from wage incomes. It is time we balance the bargaining power of workers and management and ensure our households can be more resilient to economic downturns. The huge imbalance in racial wealth is a large contributor to overall inequality, and it is a particular problem because of the low absolute level of liquidity held by Black and Latino households, in particular. We must recommit ourselves to address a legacy of a host of discriminatory policies that leave too many households lacking resilience during economic downturns. Addressing those disparities is very expensive.

As a result of these deficiencies, the size of the American Rescue Plan has driven up the national debt. To resolve that issue, we must learn from our past. We faced a large threat to our nation during World War II, this is our biggest test since then. We resolved the debt of that conflict having higher marginal tax rates on high incomes, pursuing full employment policies to keep the economy from falling into needing fiscal help to be stable, and by investing our way out of debt through a massive infrastructure package that created our modern interstate highway system. Further, we made a massive investment in the education of Americans, granting free college to returning World War II veterans and then repeating that by granting the next wave of young people affordable student loans to pursue degrees in vital strategic areas in engineering, science, math, modern languages and public education careers. We did not respond with austerity. We responded by doubling down our bets on the American people and made a down payment on America's future, launching the greatest increase in productivity, wages and technological innovation among developed economies between 1945 and 1980.

Our current infrastructure weakness is a national security risk. Our clear inability to respond to the water crisis in Jackson, Mississippi is another embarrassment that shows us to be weak and unable to quickly respond to major disruptions. Rebuilding our infrastructure is needed to restore our credibility as a powerful nation, resilient to the unexpected.

Immediate Needs

The American Rescue Plan was masterful in addressing the many losses that have taken place since February 2020. But there are four very key issues that need immediate attention by Congress, because these were not addressed: underlying disparities in the regular unemployment insurance system; the employment crisis for young workers; clearer communication of Congressional intent on state and local government aid; potential credit market scarring for businesses dependent on public gatherings.

Unemployment Insurance

The American Rescue Plan continued to recognize that our unemployment insurance system was inadequate to the task it faced last February. We had allowed too many workers to be excluded from coverage, mostly because we allowed states to exclude too many workers because of their low earnings and ignoring the trend of too many employers to schedule too few work hours through a "casualization" of the workplace. We also allowed too many workers to be misclassified as independent contractors, letting employers escape our Wage and Hour laws. And, we also let too many states set wage replacement rates that were too low. In 2018, fewer than eight percent of workers in the Leisure & Hospitality Industries, the one hardest hit by job losses because of the Pandemic, received unemployment insurance benefits.[1] Various studies have shown that Black and Hispanic workers are less likely to receive unemployment benefits than Whites.[2] Congress should be planning immediately on revamping the unemployment insurance system to remove its gender, racial and low-wage disparities. Coming out of this crisis, state unemployment insurance trust funds will be stressed as never before. States will be looking for ways to rebuild their unemployment trust funds quickly, and too often that means lowering benefits, benefit durations or limiting eligibility. Continuing to rely on a state-based system will leave us with a system that will be less-prepared for the next downturn than for this shock. A key lesson from this downturn is that benefit levels are too low for Black and Hispanic households because of their low liquidity levels resulting from a long history of discrimination in many facets of the economy, including the unemployment insurance system itself. Black households face greater risk of long-term unemployment, and coupled with low earnings, and living in states with low wage replacement rates for unemployment benefits, it took the extraordinary amounts added to benefits to get the level of consumption up to smooth the income shock of job losses.[3] There was no evidence the benefit level boost reduced labor force participation, but that it did stabilize consumption.

The long-term unemployment problem continues to grow, both as a share of the unemployed and the number of long-term unemployed workers. This means that by September, we will still have a substantial number of long-term unemployed workers. As Congress considers triggers for turning off extended unemployment benefits, it needs to keep in mind, that the long-term unemployed are heterogenous as to their skills; in February about one fourth were managers and other professionals. In a job market that has seen very slow growth in job vacancies, it is important that workers have the resources to make the proper skill match to their jobs. Withdrawing unemployment insurance support too early will weaken matches, and we will

[1] (U.S. Department of Labor. Bureau of Labor Statistics 2019)
[2] (Gould-Werth and Shaefer 2012) (Nichols and Simms 2012) (Lee 2004)
[3] (Ganong, et al. 2021)

lose the productivity of higher skilled workers taking lower skilled jobs; cascading to create worse problems for the employment problems of less skilled workers and the earnings of higher skilled workers.[4] Black workers, and Asian Americans have the longest duration of unemployment spells. Early withdrawal of extended unemployment benefits has a distinct racial disparate impact, and again part of the legacy of policies that minimize Black wealth accumulation by depleting Black savings most during recessions. The unemployment rate will be a poor indicator of the strength or speed of the labor market's recovery because of the drop in labor force participation for women and young people. As we get the coronavirus under control, large numbers of workers can be recalled to work, and there can be significant movements in the unemployment rate. But as job vacancies recover to normal levels, so will labor force participation. The result is that there is likely to be rapid, followed by a very slow decline in the unemployment rate. The long-term unemployed will remain a challenge for some time.

Youth Employment

Each downturn, it is the youngest workers who are hit hardest. They not only lose job opportunities, but their weak job records and lower earnings follow them throughout their careers; they face permanent income loss compared to cohorts just a few years older or younger.[5] This is perhaps more pronounced for this downturn, because a higher share of younger workers with less education are in the industries that have been most effected by the Pandemic.[6] It would be important in this situation to institute youth job programs, both summer youth job programs and youth job programs for out-of-school young workers under 25. The youth programs in the Workforce Investment and Opportunity Act need funding to provide for local workforce boards to do direct hires in the summer and to boost funding for the out-of-school youth programs: Youthbuild, Job Corps and expanded support for union apprenticeships. The job disparity is most pronounced for Black and Hispanic young workers. And, this is vital to address difficulties, that young Black workers will face this summer and next summer when it appears the economy is recovering. The sooner the programs are in place, the less scarring from weak job records for young people will be an issue.

[4] (Farooq, Kugler and Muratori 2020)
[5] (Schwandt and von Wachter 2018) (Rothstein 2020)
[6] (Goshen 2020) (Dey, et al. 2020)

Guidance on state and local funding support

The American Rescue Plan has provided additional funds to support state and local government. This is vital to speed a full recovery. During the Great Recession, state and local governments were too slow to return to previous employment levels, delaying public investment and slowing the recovery. In this pandemic, we have relied heavily on state and local governments to assist in the front-line struggle to contain the virus. And they are faced with the enormous task of trying to open schools and public facilities safely: improving ventilation systems, implementing safe distancing, increasing cleaning and sanitation. State and local governments are also coordinating the outreach to effectively get people vaccinated, ensuring to eliminate the racial disparities unfortunately showing up. So, it was important that Congress provide this extra support.

But, state and local government employment through February was still down 1.4 million from last year, a fall of about seven percent. Since the majority of state and local government employees are women, and are disproportionately Black women, there is an intense gender and racial equity interest that state and local governments give first priority to return these workers to their jobs.[7] Congress should communicate that with the leeway they have granted the state and local governments to spend their new funds, the return of public employees to their jobs is of the utmost priority.

Financial Scarring

Congress should monitor if financial scarring takes place from the Pandemic. Lenders may have trepidation funding live events and performances, because of a fear of cancellation that would prevent full recoupment of the investment. The interest premia firms may face to finance events because of heightened uncertainty may prove prohibitive for a healthy and quick recovery.[8] Congress should explore establishing a federal insurance program as protection when public health might force the closing of an event or business to reduce that uncertainty.

The Path Forward

[7] (Cooper, Wolfe and Hickey 2021)
[8] (Barrero and Bloom 2020)

The American economy has had long swings of rising and falling inequality. From about 1980, the U.S. has been in one of its longer swings of rising inequality. The shift in the share of national income held by the middle three quintiles, which held half of the nation's income, towards the top quintile was large enough to switch the majority of national income to the top quintile in 1986. The path of rising inequality has not stopped, soon it will be that half of national income is in hands of the top ten percent. An economy that has too much weight at the top of its income distribution is inherently unstable.

Work by economists at the International Monetary Fund and from the OECD can be summarized as showing a key finding that inequality slows economic growth and the duration of economic expansions.[9] The OECD estimates that the rise in income inequality in the Unites States from 1985 to 2005, slowed the cumulative growth the U.S. experienced between 1990 and 2010 by 5 percentage points. To resolve our national debt, we must speed up growth, and it must be stable so we do not slowdown and we do not have to use fiscal policy to bail out the economy, reversing progress of controlling the deficit. That means, we must shape our growth pattern, ensuring that we improve equality.

Congress needs to take steps to reverse the path of the last forty years and return to policies that promote the movement of wages with economic growth. The House of Representatives has passed two important pieces of legislation vital to that goal: The Raise the Wage Act and the PRO Act. The Raise the Wage Act ensures that the wage floor will keep up with productivity growth. It is key to gender equity, and an important companion to the PRO Act. Since women are slightly more than half the workforce, the minimum wage is crucial to support bargaining in many of the industries where women are a higher share of the workforce. The PRO Act will balance labor relations so workers can return to the bargaining table to negotiate how productivity gains will be shared.

The American Rescue Plan also took important steps by using the tax system to help those at the bottom much more than those at the top. Bolstering the unemployment insurance system was key to getting money in the hands of those losing out now; as were important steps to

[9] (Ostry and Bourguignon 2016) (Berg, et al. 2018) (OECD 2014)

prevent homelessness and give support to renters to avoid what was a pending eviction nightmare.

The slowing growth rate of the U.S. labor force means we must adapt our labor policies to increase women's labor force participation. That is one way to mitigate the slowing of the labor force growth. So, when we think about infrastructure—public investments to get people to work—we must also consider what is the "infrastructure" to make it easier for women to get to work. The American Rescue Plan takes steps to help with issues of childcare support. But, in thinking about the infrastructure we will need for women to increase their participation even more, we must expand on the down payment the American Rescue Plan is making toward a robust childcare solution. We must think about our outdated labor regulations, designed when men were the majority of the workforce. That means we must have paid family leave, as do all other advanced economies.

As the COVID crisis has highlighted, the aging of America will require that part of our infrastructure investments must address the rising demand for elder care and end-of-life care. Congress should carefully analyze how we can deliver decent care to older Americans, with wages and working conditions that recognize how essential the workers in that industry are to our nation. After this crisis, we cannot simply return to the same conditions of elder care as experienced this last year. The racial wealth gap must be addressed when we look to solve the problems of elder care, because it is in retirement that the wealth gap is most pressing. This cannot be resolved by ignoring the gap in lifetime earnings, so it is not merely expanding opportunities to save for retirement. Nor can it be resolved by ignoring the gap in homeownership rates. To build the proper elder care infrastructure will mean Congress must tackle resolving the legacy of many policies that have generated the current racial wealth gap to design something with equity and afford all older Americans dignity.

The American Rescue Plan also addressed inequality among American children. This is an important place to address inequality, since trying to even the starting line is the best way to provide equal opportunity. The child tax credit goes a long way to ensure that American families can reduce instability in children's lives, assuring them the funds to be resilient in the face of economic uncertainties: the loss of a job, unexpected healthcare needs, the loss of transportation, assurance to afford childcare so parents can get a job. But we can do more, by expanding our public investment in childcare facilities. And after this last year, we should ensure the workers get the pay and working conditions to recognize them as essential workers.

Physical Infrastructure

Just as the United States committed to a massive infrastructure plan in the 1950s, under a Republican president, because the need was clear; we have to make the same commitment to create an infrastructure for our children to use and to build on. Our nation's GDP per capita is now a little more than three times larger than it was then. So, it is not a matter of if our country can afford to make the investment. It is a matter of will. It is a matter of leaving our children a stronger and better nation, not a crumbling relic.

This is a matter of national security. We cannot afford to be seen as incapable. It is not acceptable that an American city like Jackson can go a month without usable water. We have long been warned that our physical infrastructure gets failing grades. Now we are living it, and living it too often. We must retain the capacity to quickly repair our infrastructure when it brings our lives to a halt. It is too costly to have our economy at rest, when we are trying to go for the fastest growth we can.

We need an infrastructure that can help us make the transition to a green economy. That means more mass transit, more bus routes and smarter roads. The resiliency of our labor market depends on the mobility of our workers. Workers need transportation they can rely on. But that also includes workers in our rural areas, who need improved and expanded options to get to jobs.

Just as our narrow asphalt lanes and gravel side roads of the 1950s were inadequate for a modern era, our roads today are not ready for smarter cars and more efficient transport. This will be no small commitment, but neither was the creation of the Interstate Highway.

Commitment to Higher Education

In 1995, the OECD ranked the United States first for the share of young workers, 25 to 34, who had degrees above high school. Today, we rank 11th. In the 21st Century that will not do. Following World War II, we made huge investments in getting our workforce to be the most educated. We built up our universities through those investments, so today they attract the world.

Yet, while other countries are paying the tuition for many of their citizens to attend our universities, we do not make same the commitment to our own children. We have fallen behind because other countries saw the investment the United States made and they have made the same for their children. We have stopped making that same investment, and let them get ahead. We actually have companies that tout they want our national policy to be importing graduates, rather than continuing our previous commitment to produce our own. That is not a solid plan. We do not control people's decisions to emigrate from their homelands.

In 1946, roughly half of America's college students were in college free, paid for by the federal government on the GI Bill. Most of the students were at highly selective schools, 41 percent enrolled in just 38 colleges, preferring the Ivy League and top liberal arts colleges and major state universities to lesser schools. In the end, over 2.2 million GI's took advantage of the college program.[10] The GI Bill, included college as an option, because policy makers were not sure if they could devise enough WPA like jobs to ensure there would be enough jobs when all the soldiers returned.

In October 1957, the Soviet Union successfully launched Sputnik into earth orbit. In response, the next year, Congress passed the National Defense Education Act. The Act provided loans, with interest rates comparable to home mortgages, to assist students in getting a college education. The loan amount was large enough to cover tuition at most Ivy League schools.[11]

Neither program addressed the barriers that created huge racial disparities in accessing them. Those would slowly be addressed over time. But the National Defense Education Act, which also included increasing college counselors in high school, succeeded in increasing American college enrollment many-folds by 1965.

But this century we have dramatically changed our investment. Beginning in the late 1990s and then more precipitously since the Great Recession, public appropriations per full time equivalent student in the United States has been declining.[12] When once, tuitions covered a little over 20 percent of college expenses per student in our state universities, tuition now covers close to half, and in some states, a little more than half.[13] Not surprisingly, student debt has now soared, doubling in less than ten years to over $1 trillion. The current generation of college

[10] (Olson 1973)
[11] (Fleming 1960)
[12] (Bound, et al. 2020)
[13] (Mitchell, Leachman and Masterson 2017)

students is being asked to do, what we did not ask of previous generations. The decline in community college attendance that has happened this year is unlike during the Great Recession, because the model of students paying the bulk of college costs is not sustainable.

Because of the racial wealth gap, Black families (both students and parents), at all income levels, are more likely to borrow money for college than other families; and this is especially true of low-income Black families.[14] And, among people with student debt, Blacks carry, on average, more student debt than any others.[15] So this new policy of the 21st Century has a racially disparate impact, the lower level of Black wealth, and the higher share of low-income Black students who enroll in college makes the system a bigger burden for Black families.

The current system of funding college education will not get America the number of college graduates we need to fuel growth in the 21st Century. When we return to the policies of our past, so we can return to the best educated workforce again, we will have left this one generation with a scar. They will remain the one generation asked to borrow to pay for college.

Taxes

For the period of America's fastest economic growth, 1945 to 1975, marginal tax rates were much higher than today. As top marginal tax rates have fallen, so has inequality worsened. There has been no relationship between lower marginal tax rates and increased investment, though there is some evidence of increased business formation,[16] but the labor market has not performed better. The average unemployment rate between 1945 and 1980 was much lower than it has been since the top marginal tax rate began to fall in the 1980s. Making the tax system more progressive will have stabilizing effects on the economy.

Conclusion

The high level of inequality on many dimensions revealed by the COVID-19 crisis, also showed how fragile our economy has become. To have a resilient economy, we must have more resilient households. Our current inequality is not corrected by our current safety-net programs. In a crisis, this incident tested good governance. Fortunately, Congress worked with the President to get the American Rescue Plan enacted. The Cares Act and the Families First Act showed how

[14] (Chingos 2019)
[15] (Braga 2016)
[16] (Romer and Romer 2014)

much it cost to just keep the economy afloat. By December, the effects of both programs had dissipated and the economy stalled.

The American Rescue Plan will be helped by the rate at which people are getting vaccinated. But if vaccinations do not reach the critical level to contain the virus, and people do not act with care to wear masks, then in September things may not look as we would hope. Even if the disease gets under control, it will take a long time to heel our labor market.

We took a different choice than Europe on how to handle our labor market. Europe used direct payments to keep workers connected to their firms. So they are not experiencing the high levels of worker separations from firms we will be trying to resolve. Congress should continue to evaluate whether our policy choice was the better option.

In addition to revamping our unemployment insurance system, the rest of our safety-net needs evaluation to see if it needs mending. Some programs, like the Supplemental Nutrition Assistance Program (SNAP) worked well in being targeted and meeting needs, but may have been quicker to respond if automatic triggers could reduce delays in making policy adjustments when things are moving quickly.

We can get our economy back on track. America has done this before. The formula that works is to invest in America, and ensure everyone pays their fair share. This time, we get to design our recovery with a deeper understanding of how we created racial disparities in the past, so we can create a path with equity in mind.

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