

Testimony of Lisa D. Cook
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“Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting Workers’
Pay During COVID-19”
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The coronavirus pandemic and the resulting human, economic, and financial crises are unfolding at break-neck speed. Nonetheless, the rent and bills of Americans were and are still due.

The quick action of Congress has gone a considerable way to lessen or postpone the pain associated with this pandemic-induced recession. Specifically, adding \$600 per week to unemployment checks, providing assistance to small businesses through the Paycheck Protection Program (PPP), and giving Americans a direct payment of \$1200.

With an unemployment rate of 11.1 percent in June, we have now entered the history books with the second-highest unemployment rate than at any other time since 1940. But the burden of unemployment is not evenly shared across racial and ethnic groups. The unemployment rate for African Americans is 15.4 percent, and, for Hispanic Americans, it is 14.5 percent. These data are particularly disturbing, because Black and Hispanic households were eviscerated by the Great Recession due to their disproportionate losses in wealth relative to whites stemming from their disproportionate investment in housing. This means that they are even less prepared than other Americans to withstand this sudden stop in the economy brought on by the novel coronavirus pandemic.

Despite a lower unemployment rate in June than in May, 19 million people were still receiving unemployment benefits in June. The employment situation deepens the health-related crisis American families face. And their crisis is one that could and is beginning to spread to other parts of the economy.

By early June, 44 percent of adult Latino renters and 41 percent of Black renters, compared to 21 percent of white renters, reported not being able to pay their rent.¹ Twenty percent of rental households face eviction by September 30.² A wave of bankruptcies could ensue if small businesses cannot stay afloat, renters cannot pay their rent, and landlords cannot pay their mortgages.

¹ Census Household Pulse Survey.

² Covid-19 Eviction Defense Project cited in Merle (2020).

The direct federal payments of up to \$1,200 per adult and \$500 per child are a critical first lifeline for many households and the U.S. economy, allowing them to purchase food and pay their bills.³ To minimize the likelihood that an illiquidity crisis for these households becomes a bankruptcy crisis for them in the coming weeks and months, Congress should authorize another round of direct payments, along with extended unemployment benefits.

By early May, it is estimated that 100,000 small businesses, or two percent of small businesses, had already closed.⁴ By mid-June, of the businesses that are listed on Yelp, 140,000 of those closing since March 1 were still closed by mid-June. Thirty-five percent of shopping and retail businesses listed have closed their doors temporarily. 53 percent of restaurants listed have closed their doors permanently.⁵ The burden of business closures is also unevenly distributed. Forty-one percent of African American businesses reporting being closed, compared to 35 percent overall (Fairlie 2020). Over a third of small businesses reported paying reduced rent or deferred rent payments.⁶

Prior to reopening, states that received more PPP loans and with more generous unemployment benefits had less severe declines and faster recoveries (Bartik, Bertrand, Lin, Rothstein, and Unrath 2020). The results from early-reopening states suggest that many small businesses, such as restaurants and bars, will need to close again. Data from Open Table had begun to show a slow, steady recovery from early May. However, this trend started reversing itself in early July. In Texas, this meant that seated dining business went from a fall of 60 percent relative to a year earlier at the end of June to a fall of 75 percent relative to a year earlier in early July.⁷

In Five-Thirty-Eight's most recent survey, the majority macroeconomists believe that there will be a partial rebound in economic activity and a slow recovery, rather than a V-shaped, sharp recovery.⁸ Given that consumer spending is 70 percent of GDP, it is clear that more and extended help to the American people and small businesses will be urgently needed.

In addition, more aid to state and local governments is desperately needed now to continue to fight the pandemic and to prepare for job losses stemming from impending austerity budgets being adopted by state and local governments. This relief should be directed at health care providers, community colleges, universities, mental health and other social services, universal broadband, and the arts.

³ Baker, et al. (2020)

⁴ Bartik, Bertrand, Cullen, Glaeser, Luca, and Stanton (2020)

⁵ Grossman (2020).

⁶ Bartik, Bertrand, Cullen, Glaeser, Luca, and Stanton (2020)

⁷ Guzman (2020).

⁸ Paine and Thomson-DeVeaux (2020)

Any and all relief to the American people should be authorized and disbursed with all deliberate speed.⁹

⁹ See Cook (2020) for a detailed proposal to use mobile money to get direct federal payments to Americans quickly.

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