Statement of Damon Jones
Testimony prepared for the US House of Representatives Committee on the Budget

Hearing on "Health and Wealth Inequality in America: How COVID-19 Makes Clear the Need for Change"

June 23, 2020

Introductions

Thank you chairman and members of the committee for inviting me to speak today. I am Damon Jones, an economist by training, and an associate professor at the University of Chicago, Harris School of Public Policy. My research and teaching focuses on inequality, tax policy, and household financial wellbeing.

My comments today will focus on four areas of inequality and how they interact with the current COVID-19 pandemic: the long-term declines in worker power, the coupling of health insurance coverage and employment status, wealth inequality and the strengths and weaknesses of our existing social safety net, and, finally, economic inequality along racial lines.

Declining Worker Power

According to several indicators, the bargaining power of workers, in particular low-wage workers, has been on the decline. A commonly cited metric for worker bargaining power is the share of workers who are represented by a union. At its peak, U.S. unionization rates were above one third, and possibly closer to 40 percent in the early 1950s. Today, unionization rates are closer to 10 percent.[1] Other measures consistent with a decline in worker power includes declining share of profits going to labor relative to capital and the rise of non-compete contracts.[2] Other studies are now identifying strong evidence of employer power in setting wages, known as "monopsony power."[3] Collective bargaining can help workers push for more fair pay and better working conditions, and have historically been responsible for securing what are now commonplace workplace health and safety measures. Over the same period of time where unionization has waned and worker power has eroded, median wages have remained stagnant, even despite the increasing productivity of firms.[4] It is in this setting where we find workers in low wage jobs, at the onset of the COVID-19 pandemic.

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[1] "Unions and Inequality Over the Twentieth Century: New Evidence from Survey Data," (2018), by Henry Farber, Daniel Herbst, Ilyana Kuziemko, and Suresh Naidu, NBER Working Paper 24587
[2] See "The Declining Worker Power Hypothesis: An Explanation for the Recent Evolution of the American Economy" (2020), by Anna Stansbury and Lawrence H. Summers, NBER Working Paper 27193, for one summary of these trends.
[3] "Monopsony in Online Labor Markets," (2018), by Arindrajit Dube, Jeff Jacbos, Suresh Naidu, and Siddharth Suri, NBER Working Paper 24416
[4] Stansbury and Summers (2020)

With worker bargaining power at the lowest it has been in decades, how have workers in these jobs fared during the COVID-19 pandemic? A Roosevelt Institute Survey of frontline workers found that over 25% expressed high concern about COVID-19 infection risk. Despite these fears, these workers continue to clock in, and rising bills and expenses appear to be a key factor driving this. What's more, many of these workers have not received significant increases in hazard pay in return for their work: essential workers report over average an increase of $1 in hourly compensation, and at least half report no change in wages.[5] With more robust bargaining power, these workers would likely be able to command safer working conditions, better benefits, and higher compensation in return for their essential work. Unionized workers in this same survey report a higher likelihood of always using personal protective equipment (PPE) at work, access to paid sick leave in the event of an infection, disinfecting of the workplace, and are more likely to have been tested for COVID-19.

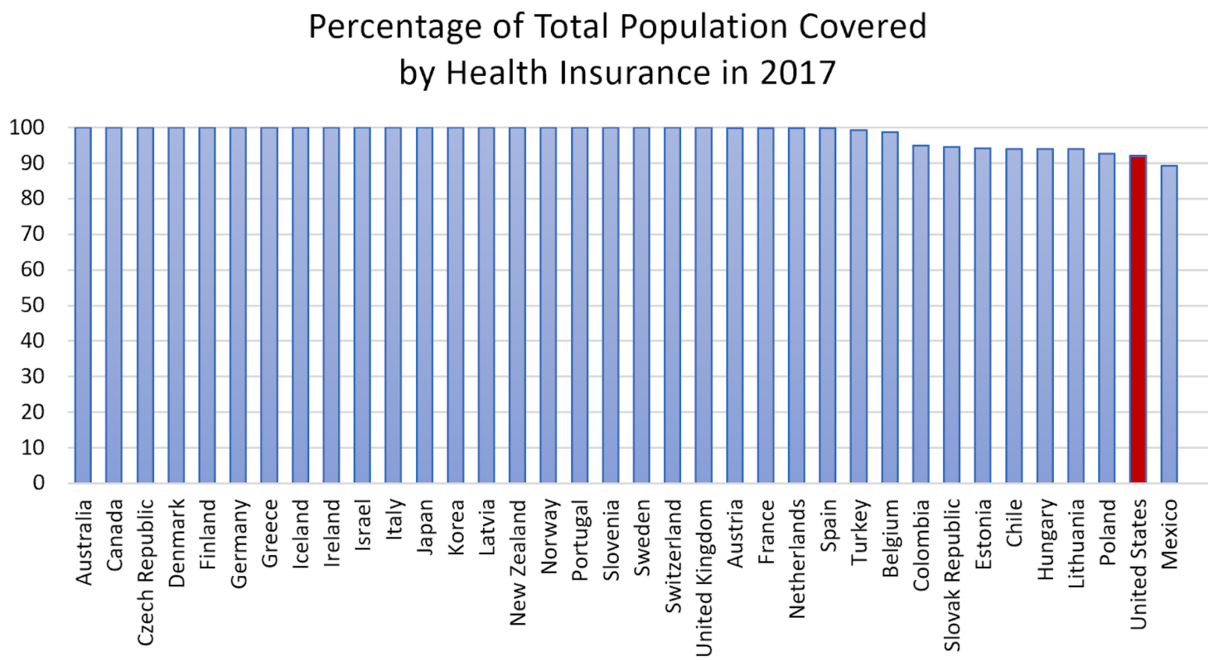
As calls for reopening the economy increase, the discussion is likely to be driven by those with interest in lost business revenue, but this must be balanced with the consideration of the workers who will be put most at risk. Organized business interests are in a much better position to lobby for their preferred measures, relative to the disaggregated frontline workers who share a common interest in exercising prudence in bringing back normal economic activity. Elevating the voice of these workers is of the utmost importance, both as it pertains to safe working conditions during the pandemic and also given the long-term trend in declining worker power.

Incomplete Insurance Coverage

Another important dimension of inequality in the U.S. involves access to health care and health insurance coverage. There has been a longstanding debate surrounding these issues, including in the most recent presidential campaign cycle, but I will only offer a few succinct observations related to the current COVID-19 pandemic. First, our approach to health insurance in the U.S. places in the minority among our counterpart OECD countries. Prior to the pandemic, the U.S. ranked second to last in insurance coverage among OECD countries (Figure 1). Given the levels of coverage that are achieved in the majority of our peer countries, we have to view this outcome as nothing other than a policy choice. There are a variety of models of and paths to universal health insurance coverage. Our approach in the U.S., in which a majority of non-elderly families receive health insurance coverage through an employer, has proven inadequate at achieving this goal.

[5] All of the results in this paragraph are taken from "Understanding the COVID-19 Workplace: Evidence from a Survey of Essential Workers," (2020), by Alexander Hertel-Fernandez, Suresh Naidu, Adam Reich, and Patrick Youngblood. Roosevelt Institute Report

Figure 1: Health Insurance Coverage Among OECD Countries



Source: Organization for Economic Co-operation and Development (OECD)

The flaws of our approach to health insurance and health care have been laid bare during this current crisis in which we have experienced an unprecedented rise in the unemployed. It is estimated that among the nearly 78 million people living in households where a job was lost, just under 27 million are likely to become uninsured due to separation from an employer and loss of employer sponsored insurance (ESI).[6] Among these newly uninsured, approximately 80 percent are estimated to be eligible for publicly subsidized insurance. And even among those who are eligible, additional barriers to coverage remain. First, for families considering Medicaid, the eligibility for this option varies significantly from state to state, depending on whether or not the state has adopted Medicaid expansions of the Affordable Care Act (ACA). Alternatively, for those that might wish to turn to insurance exchanges for coverage, they must be aware of their options and must be able to navigate the registration process at a time when funding for outreach and enrollment assistance. Finally, there is the option to extend prior health insurance through the Consolidated Omnibus Budget Reconciliation Act (COBRA), but this is typically an expensive proposition.

If we were to instead have a system of universal health care in place, where insurance were not linked to employment status, these families would have access to continuous coverage and health care, which is particularly valuable during a public health crisis. Furthermore, for those who have contracted COVID-19, there is a potential for longer-term chronic complications, in

[6] "Eligibility for ACA Health Coverage Following Job Loss," (2020), by Rachel Garfield, Gary Claxton Anthony Damico, and Larry Levitt. Kaiser Family Foundation

which case broad health insurance coverage will play a key role in the management and or prevention of chronic illness or irreversible adverse health outcomes.

Wealth Inequality and Financial Vulnerability

Wealth inequality in the U.S. is high, and has increased over time. Although there are vigorous debates about just exactly how much wealth is concentrated at the top, economists estimate that the top 1 percent of households own anywhere between 30 and 39 percent of total U.S. wealth. By contrast, the bottom 90 percent households holds at most 34 percent of U.S. wealth.[7] This has implications for how inequality plays across different groups and places, across different generations, and how equally or unequally power in society is distributed. One component of wealth in particular, liquid assets, are particularly important for understanding how families will fare during a crisis such as the one we currently face. Liquid assets refer to cash on hand, in your wallet, or checking and savings accounts, and/or assets that can be easily converted into cash.

Many households have very little cash on hand for an emergency. Surveys suggest that about 42 percent of households do not have money set aside that could be used for an unexpected emergency.[8] In 2016, more than half of U.S. households had less than one month of liquid assets available in the case of an emergency.[9] This means that when these households face cuts in their take-home pay or worse, when they become unemployed, they will have to make painful reductions in spending on necessary household items: food, groceries, and the like.

In a recent study, we found this vulnerability to be highly sensitive to the amount of liquid assets present in the household. When faced with a 10 percent drop in pay, households with the lowest level of liquid assets are likely to cut their spending by 4 percent, while households with the highest levels of liquid assets would only reduce spending by about 1 percent.[10] Likewise, when a family member becomes unemployed, households with the lowest level of liquid assets reduce spending by 46 cents for each dollar in lost income, while those with the highest levels of liquid assets only reduce their spending by 24 cents.[11] Overall, this prior evidence suggests that during this pandemic, households with the lowest levels of liquid assets will be the hardest hit by lower pay and unemployment during the pandemic.

In the absence of personal savings to help weather the storm, many families may turn to public support to maintain economic security. In the U.S., our social safety net consists of various

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[7] See “Top Wealth in America: New Estimates and Implications for Taxing the Rich,” (2020), by Matthew Smith, Owen Zidar, and Eric Zwick, for an overview and comparison of many recent estimates of top wealth shares, Working Paper.
[8] Current Population Survey (CPS) June 2015 and June 2017 unbanked/underbanked supplement.
[9] Survey of Consumer Finances (SCF), 2016.
[10] “Wealth, Race, and Consumption Smoothing of Typical Income Shocks,” (2020), by Peter Ganong, Damon Jones, Pascal Noel, Diana Farrell, Fiona Greig, and Chris Wheat, Working Paper.
[11] “Consumer Spending during Unemployment: Positive and Normative Implications,” (2019), by Peter Ganong and Pascal Noel, *American Economic Review*, Vol. 109, No. 7.

policies designed to provide this type of relief. During the current economic downturn, we have provided cash relief to families through two primary channels: economic impact payments (also known as “stimulus payments”) through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and generous extensions of the unemployment insurance (UI) program, in terms of who long UI may be claimed, who may be eligible, and how much workers receive each week. Indeed, these measures have provided a considerable amount of relief at the onset of the pandemic. One study, relying on simulations, estimates a projected poverty rate of 12.7 percent that could have been as high as 16.3 percent in the absence of the economic relief.[12] Another study, using data from the Current Population Survey (CPS), estimates that because of our economic relief payments, the number of households below the poverty line actually fell during the first months of the pandemic, even in spite of widespread job loss.[13]

Despite these promising outcomes, we may still have reason to believe that some families are still in dire need and others may be missed by our primary means of providing relief. First, measures of food insecurity rose at the beginning of the pandemic, before decreasing slightly over time.[14] In addition, some families may face delays in receiving either the CARES Act economic impact payments, in some extreme cases, as much as a year.[15] Similarly, some households may face a lag in determining whether they qualify for unemployment insurance.[16] For households with low levels of liquid assets, even a short delay can create significant challenges. In addition, the CARES Act payments were only a one-time measure and the extensions in unemployment insurance are set to expire at the end of the July.

In general, some of our most direct income support programs, such as the Earned Income Tax Credit and Child Tax Credits, are delivered annually through the income tax filing system, while families who face short-term needs for cash relief require more responsive and steady income support.

Finally, we must point out that there are a number of families that are unlikely to benefit from this relief. There are some adult dependents of other tax filers who are not eligible for CARES payments. There are also homeless people who are very unlikely to access these benefits. And importantly, a large class of families with members who are undocumented or who do not have a social security number are left out. These members of our community are in as just as much need as any.

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[12] “The CARES Act and Poverty in the COVID-19 Crisis,” (2020), by Zachary Parolin, Megan A. Curran, and Christopher Wimer. Columbia University Center on Poverty and Social Policy Brief.
[13] “Income and Poverty in the COVID-19 Pandemic,” (2020), by Jeehoon Han, Bruce D. Meyer, and Jamex X. Sullivan, Working Paper.
[14] “Vast Federal Aid has Capped Rise in Poverty, Studies Find,” June 21, 2020, by Jason DeParle, *The New York Times*.
[15] “IRS tells parents still waiting for their $500 stimulus child benefit it won’t arrive until next year,” May 1, 2020, by Michelle Singletary,, *The Washington Post*.
[16] See article by Jason Deparle (2020) above.

Racial Inequality

A final type of inequality present in the U.S. at the onset of the pandemic is that between racial groups. In all three of the above cases, the patterns of inequality also exist across racial and ethnic lines. According to one estimate, Black workers comprise 17 percent of frontline workers but only 12 percent of the total workforce, and Latinx workers are overrepresented in a number of essential industries, including grocery and retail, trucking, warehouse, and postal services, and building cleaning services.[17] This racial and ethnic clustering within specific sectors and industries has led to divergent patterns of job loss during the pandemic. Initially, an overrepresentation in essential jobs meant that the unemployment gap between White and Black workers became smaller at the onset of the pandemic. The ratio of Black to White unemployment is typically around 2, but was closer to 1.25 in April. However, as time has passed, the unemployment gap has begun to return to prior levels. The White unemployment rate declined during the month of May, while remaining steady for Black workers. On the other hand, Latinx workers now find themselves with the highest rates of employment, in part due to their concentration in restaurant and hospitality industries.

With regards to health insurance coverage, the share of nonelderly people uninsured was higher for Black (11 percent) and Latinx (19 percent) families, relative to White ones (8 percent). In the case of Latinx families, uncodumented status is likely to play a major role. Notably, the share uninsured among Native people is even higher, at 22 percent.[18] Because insurance is generally tied to employment status, the employment trends discussed above are likely to make it harder for these households to maintain continuity in coverage, if retaining coverage at all, during the pandemic.

And finally, the U.S. faces dramatic racial wealth gaps. The typical White household has $171,000 in net wealth, while the level among Black households is only a tenth of that amount, at $17,150, and Latinx households fare slightly better with $20,720 in nex wealth.[19] This translates directly into higher financial vulnerability. In a recent study, we found that if a worker's paycheck was reduced by 10 percent, a White worker is likely to reduce household spending by 2 percent, while the impact on Black and Latinx households was 50 percent and 20 percent larger, respectively.[20] Figure 2 shows how these same dynamics unfold during an unemployment spell. In Panel A, we see that in this sample of households with bank accounts, income drops at about the same rate at the onset of unemployment (i.e. time "0" on the x-axis). However, in Panel B, we see that spending on necessary goods falls by a greater amount for Black and Latinx (Hispanic) households, as compared to White households. Although these

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[17] "A Basic Demographic Profile of Workers in Frontline Industries," April 7, 2020, by Hye Jin Rho, Hayley Brown, and Shawn Fermstad. Center for Economic and Policy Research.
[18] "Uninsured Rates for the Nonelderly by Race/Ethnicity," (2018), Kaiser Family Foundation.
[19] Survey of Consumer Finance, 2016. Separate data for Asian and Native households is not available in the public use data.
[20] "Wealth, Race, and Consumption Smoothing of Typical Income Shocks," (2020), by Peter Ganong, Damon Jones, Pascal Noel, Diana Farrell, Fiona Greig, and Chris Wheat, Working Paper.

data are taken from years preceding the pandemic, it is likely that similar disparities will emerge during the current crisis.

As mentioned above, there are various policy measures in place to provide relief for households with few assets. However, there are likely to be racial disparities in access to this support. For example, there are approximately 12 million households that fall for whom CARES payments are not automatically sent. These are households that did file a tax return in either 2018 or 2019, generally because their income was so low that a tax return was not required. These households must file additional paper work by October 15th in order to receive a payment. It is estimated that Black and Latinx households are disproportionately represented among this group.[21] Moreover, among the households that have received a payment form the IRS, payment processing is much slower for those who do not use direct deposit. In this respect, we might again worry that Black and Latinx households are more likely to experience a delay, with 17 and 14 percent not having a bank account, respectively, compared to 3 and 2.5 percent among White and Asian households, respectively.[22] More generally, we have shown above that economic impact payments and unemployment insurance extensions have caused poverty rates to be lower than they would have been otherwise, poverty rates among Black and Latinx households still hover near 20 percent, as compared to a much lower rate of 8 percent among White households.[23]

Policy Solutions

Given the above discussion, I recommend the committee consider the following policy options for addressing inequality both during the pandemic and beyond.

1. **Worker Power:** Empower workers by protecting their right to engage in collective bargaining, including potential bargaining options at the levels higher than firm, e.g. sectoral, and also by strengthening and enforcing existing U.S. labor standards.
2. **Incomplete Insurance Coverage:** Implement some version of universal health care provision and health insurance coverage, doing away with the tight linking of health insurance coverage and employment status.
3. **Economic Vulnerability:** Continue regular delivery of cash relief to U.S. households via direct payment through the IRS and by renewing extensions of the unemployment insurance program. Tie continued extension of the unemployment insurance program to macroeconomic indicators to avoid further uncertainty. Provide resources to state and local governments to better reach individuals not covered by either of the aforementioned forms of relief, and extend relief to undocumented families.

[21] "Aggressive State Outreach Can Help Reach the 12 Million Non-Filers Eligible for Stimulus Payments," June 16, 2020, by Chuck Marr, Kris Cox, Kathleen Bryant, Stacy Dean, Roxy Caines, and Arloc Sherman. Center on Budget and Policy Priorities.
[22] FDIC National Survey of Unbanked and Underbanked Households, 2017.
[23] See article by Jason Deparle (2020) above.

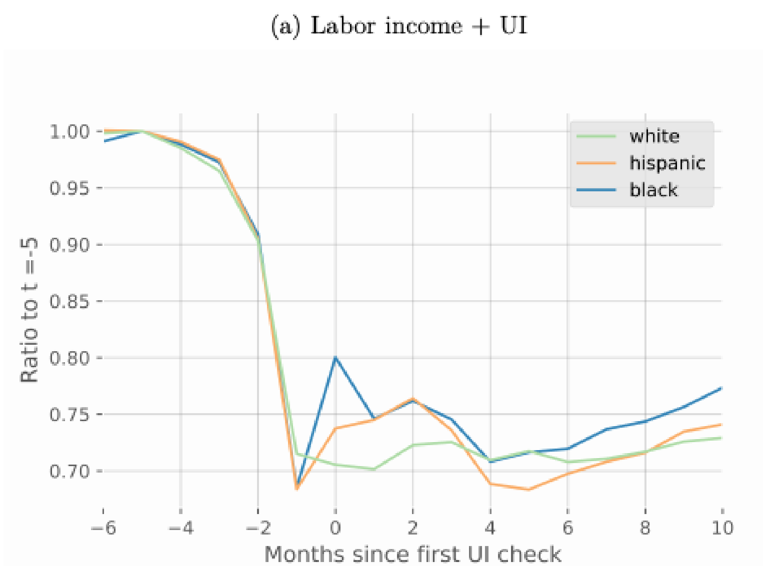
4. **Racial Inequality**: While all of these factors are exacerbated by existing racial inequalities, alleviating longstand racial disparities in economic outcomes, such as the racial wealth gap, will require a more fundamental shift in combating structural racism. A promising first step in that direction would include measures such moving forward with H.R. 40 in establishing a committee to explore reparations for African-Americans. These policies are central in achieving what William Darity Jr. and A. Kirsten Mullen describe as acknowledgement, redress, and closure with respect to historic racial injustice.[24]

Thank you for this opportunity and I look forward to your questions.

[24] "Resurrecting the Promise of 40 Acres: The Imperative of Reparations for Black Americans," (2020), by William Darity Jr. and A. Kirsten Mullen. The Roosevelt Institute.

Figure 2: Net Income and Nondurable Spending During Unemployment, by Race

Panel A: Net Income (income plus unemployment insurance)



Panel B: Nondurable Spending