Chairwoman Waters, Ranking Member McHenry, and members of the Committee, thank you for the opportunity to testify in today’s hearing, entitled “The Heroes Act: Providing for a Strong Economic Recovery from COVID-19.”

As you know well, the COVID-19 pandemic and efforts to contain it have exacted a staggering human and economic toll. More than 19 million Americans lost their jobs in March and April, according to the Job Openings and Labor Turnover Survey (JOLTS). In addition, many independent contractors and self-employed persons suffered dramatic income drops. Many businesses have closed, and many others are struggling to survive. Despite recovering some lost ground after April, payroll employment in June is 14.6 million below its level in February.

In thinking about appropriate economic relief and recovery policies, it’s useful to recognize some key facts about the recent performance of the U.S. labor market and its current condition.

First, even as the pandemic struck in force and millions lost jobs, employers continued to hire workers in large numbers. According to JOLTS data, employers in aggregate hired 4.8 workers for every 10 layoffs in March and April. This remarkable statistic highlights the capacity of the U.S. labor market to respond in positive ways, even amidst the worst employment contraction since records began. That is a hopeful development. As we move forward, policy should find ways to leverage the capacity of the economy to create new jobs and employ more workers.

We must also face a hard truth about recent developments, which brings me to a second key observation: Many millions of jobs lost during the pandemic recession are gone for good. In recent research prepared for the Brookings Papers on Economic Activity, my coauthors and I project that one-third or more of job losses from March to May will prove to be permanent in the sense that job losers won’t return to their old jobs at their previous employers. This sobering observation underscores the critical need for new jobs.

Third, the COVID-19 shock has caused huge shifts in consumer spending patterns, working arrangements, and business practices. Many of these shifts will endure after the pandemic ends, with profound implications for labor markets:

a. Millions of households have tried online shopping and delivery services in recent months. Some will continue to value the convenience and (perceived) safety after the pandemic ends. As a result, the retail sector is experiencing major, ongoing structural changes. Some firms will adapt well to these changes, and some will not. Many old jobs will vanish, and new ones will arise. The new jobs may be in different locations than the old ones, and they may require different skills.

b. Half or more of all employees worked from home in May. This mass experiment has pushed organizations and individuals to invest in becoming more productive in working from home. Recent evidence also suggests that most workers are favorably surprised by how effectively they can work from home, and many want to continue working from home one or more days per week after the pandemic.

c. These observations suggest that the recent shift to working from home will not fully reverse after the pandemic recedes. According to the Survey of Business Uncertainty, employers expect that full days working from home will triple from 5 percent of all workdays in 2019 to more than 15 percent after the pandemic ends. This tripling will involve a shift in one-tenth of all full workdays from business premises to residences – one-fifth for office workers.

d. Since the propensity to work from home rises strongly with wages, the shift in worker spending power from business districts to locations near residences is even greater. Many jobs in restaurants, coffee shops, bars, and retail outlets that cater to office workers are also likely to shift away from business districts. Cities must be prepared to facilitate the creation of new jobs to replace the ones that are lost.

e. After turning to virtual meetings out of necessity, many businesses are likely to see them as an easier, cheaper option to travel and in-person meetings in some circumstances. A persistent drop in business travel has profound implications for

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7 See Barrero, Bloom and Davis, “COVID-19 Is Also a Reallocation Shock,” cited above; and “Firms Expect Working from Home to Triple” by David Alig and others, Macroblog, 28 May 2020. The Survey of Business Uncertainty is a monthly panel survey of American firms, fielded by the Federal Reserve Bank of Atlanta in cooperation with the University of Chicago Booth School of Business and Stanford University.

8 See Bick, Blandin and Mertens and Barrero, Bloom and Davis “The Future of Working from Home,” both cited above.
travel and hospitality industries. Here as well, many lost jobs will not return. Policy must set the stage for the creation of new jobs.

Fourth, job opportunities are more abundant in today’s labor market than suggested by our extraordinarily high unemployment rate – 11.1 percent in June. In the Conference Board’s June Consumer Confidence Survey, only 24 percent of respondents said jobs are hard to get.9 That’s much less than during the financial crisis of 2008-09, even though the unemployment rate is higher now. In fact, the survey results say that finding a job now is about as hard as it was in 2015, when the unemployment rate averaged 5.3 percent.10

The same point is evident in the Job Openings and Labor Turnover Survey. At 3.9 percent, the job vacancy rate in May is more than twice as high as it was during the middle of 2009.11 Indeed, the job vacancy rate is higher now than during any month from 2002 to 2014.

These dry statistics contain an important and hopeful message: Jobs are available in today’s economy. Policy should encourage the unemployed to take advantage of job opportunities – now and in the months ahead.

In this regard, it would be a major mistake for the federal government to continue supplementing unemployment benefit levels by $600 per week. Research at the University of Chicago estimates that, under the Cares Act, two-thirds of eligible workers receive benefits that exceed lost earnings.12 Similarly, the Congressional Budget Office estimates that extending the $600 supplemental unemployment benefits would mean that “roughly five out of every six recipients would receive benefits … [greater than they] expect to earn from work.”13

Common sense tells us that people will avoid work when they receive more income by not working. Even at replacement rates in the historical range of 40-50 percent of prior earnings, unemployment benefits discourage job search by recipients.14

For the young unemployed retail clerk, the $600 weekly supplement says: Don’t take a job delivering groceries and meals to elderly folks who are highly vulnerable to Covid-19. Don’t take one of the hundreds of thousands of new jobs at Amazon, Wal-Mart and other growing

9 See “Despite Historic Unemployment, Finding a Job Isn’t that Difficult – At Least Not Yet” by Gad Levenson, Forbes, 14 July 2020.
12 See “Unemployment Insurance Replacement Rates During the Pandemic” by Peter Ganong, Pascal Noel and Joseph Vavra, working paper, May 2020.
13 Letter to The Honorable Charles Grassley re Economic Effects of Additional Unemployment Benefits of $600 per Week, Congressional Budget Office, 4 June 2020.
businesses. Instead, stay home and collect a bigger paycheck, courtesy of the government. That is a terrible message to send. To those who stay on the job in hospitals, nursing homes, grocery stores, and other essential activities – often risking their own health and that of family members – it is also terribly unfair that others get paid well for not working.

Some argue that we should extend the $600 supplemental unemployment benefit to help boost the overall demand for goods and services. That argument rests on a false choice between extending the $600 supplement and doing nothing. If the goal is to stimulate demand, Congress can do so in ways that do not destroy the financial rewards to work.

If extended, the $600 supplemental unemployment benefit will discourage a return to work and slow the economic recovery from the COVID-19 shock. The Congressional Budget Office projects that extending the $600 supplement would probably lower employment in the second half of 2020 and in 2021. The CBO reaches this conclusion despite incorporating the positive effects of such an extension on the aggregate demand for goods and services. As I have already noted, Congress has other tools for stimulating demand, it that is the goal.

The Cares Act implemented another change to the unemployment insurance system that I want to recognize and endorse: Let gig workers, independent contractors, and other self-employed persons receive unemployment benefits when they lose their ability to earn a living through no fault of their own. These workers also have bills to pay and families to support. We should not penalize them, simply because they are not employees.

We must also improve the capacity of the unemployment benefits system to process claims, detect and deter fraud, and provide benefits to the people who are entitled to them. Recent news accounts describe the plight of Americans who are entitled to unemployment benefits but do not receive them, or receive them only after long, frustrating delays and great hardship. There is a distressing irony here: In today’s economy, many unemployed persons receive more income than when working, and others who are entitled to benefits get nothing or receive benefits weeks and months late. We must improve the operational capacity of our unemployment insurance system, so that it functions as intended.

There is also an important role for policies that channel liquidity support to cash-strapped businesses with good commercial prospects. At the same time, we must recognize the challenge of designing government programs that support loans to viable businesses while also avoiding subsidies for zombie firms and firms that have poor commercial outlooks.

15 See, for example, “Coronavirus Pandemic Compels Historic Labor Shifts,” Ruth Bender and Matthew Dalton, Wall Street Journal, 29 March 2020; and “Amazon Hired 100,000 People Last Month. Now It’s Hiring Another 75,000.” John Koetsler, Forbes, 13 April 2020.

Low-interest loans to businesses are a useful policy tool in this regard, so that businesses can survive the cash-flow crunch and ramp up operations as the pandemic recedes. Loans are better than grants (including forgivable loans) for two reasons: First, they are less costly for taxpayers. Second, well-designed loan programs encourage viable businesses to sign up for assistance. In contrast, even businesses with dismal prospects want grants and bailouts.

It is also important that the lenders who originate business loans retain some exposure to losses that result when the borrower fails to repay the loan. This type of loss exposure ensures that the lender has a financial incentive to exercise due diligence and to direct loans to companies with sound commercial prospects.

Some want to condition support for businesses on the preservation of jobs. The goal appears to be a return to the pre-pandemic economy and the restoration of nearly all lost jobs. That’s a pipe dream for reasons I have explained, and a costly one if we chase it. In this regard, let me state another hard truth: Many businesses will not continue at their pre-pandemic employment levels without subsidies of indefinite duration. Using taxpayer funds to support zombie jobs is a recipe for stagnation, not recovery.

There is also a vital role for regulatory reforms that make it easier and less costly for promising businesses to tap private sources of financial capital, so they can grow and create new jobs for workers and their communities. Such reforms also have two other attractive features. First, they do not require taxpayer funds, a major advantage when there are so many demands on government resources. Second, because private suppliers of financial capital seek a positive return on their investments, they have a built-in incentive to be prudent and forward-looking in the allocation of funds.

Let me conclude on an upbeat note. Figure 1 displays weekly statistics on business formation. These statistics derive from administrative data on applications for a new Employer Identification Number (EIN) on IRS Form SS-4. The figure reports statistics for so-called “high-propensity” applications, which are the subset of applications for a new EIN that the Census Bureau regards as having a high propensity to hire paid employees.

As seen in the figure, business formation began to recover from the COVID-19 shock in May. By late May, business formation was down less than five percent from a year earlier. It continued to rise in June, surpassing both year-earlier values and the pace of business formation in early 2020. This statistical pattern tells us that there are many new firms that would like to create jobs and hire workers. They will do so, if we choose our policies wisely.

Thank you.
Figure 1: Weekly Count of High-Propensity Business Applications in 2020 and Percent Change Relative to the Same Week in 2019


Notes: Bar heights report the count of “High-Propensity Business Applications” in the week ending on the indicated date. These statistics derive from administrative data on applications for a new Employer Identification Number (EIN) on IRS Form SS-4. “High-propensity” applications are those with a high propensity to hire paid employees based on certain characteristics, including (a) they are from a corporate entity; (b) they indicate they are hiring employees, purchasing a business or changing organizational type; (c) they provide a first wages-paid date (planned wages); or (d) they have a NAICS industry code in manufacturing (31-33), retail stores (44), health care (62), or restaurants/food service (72). The values atop each bar are year-on-year percent changes in the number of high-propensity business applications relative to the same week in 2019. This figure is reproduced from Barrero, Bloom and Davis, “COVID-19 Is Also a Reallocation Shock.”