Prepared Testimony on "The Unemployment Pandemic: Addressing America's Jobs Crisis"

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Thank you for the opportunity to testify on the unemployment situation and the critical role that unemployment insurance plays in helping to protect workers who have lost their jobs and also in strengthening the overall economy. I am a Professor of the Practice of Economic Policy jointly at the Harvard Kennedy School and in the Economics Department at Harvard University. I am also a nonresident senior fellow at the Peterson Institute for International Economics. I do research and teaching on a wide range of economic policy issues.

My testimony makes eight points:

1. The unemployment crisis is severe.

2. Unemployment insurance has played a critical role both for the workers who have lost their jobs and for the economy as a whole.

3. Unemployment insurance has both positive and negative effects on labor supply, and it can have positive effects on labor market matches.

4. Jobs are currently constrained primarily by lack of demand by employers not by lack of supply of people interested and willing to work.

5. Expanded unemployment insurance should continue and adjust with changes in the unemployment rate.

6. The abrupt expiration of any form of expanded unemployment insurance at the end of July would create problems both for those workers directly affected and for the economy as a whole, reducing GDP by about 2½ percent in the second half of this year—more than a typical year's worth of economic growth.

7. The unemployment insurance system had major shortcomings before the COVID-19 crisis, and it should be permanently reformed.

8. Much more is needed to protect jobs, create jobs, and foster economic recovery.

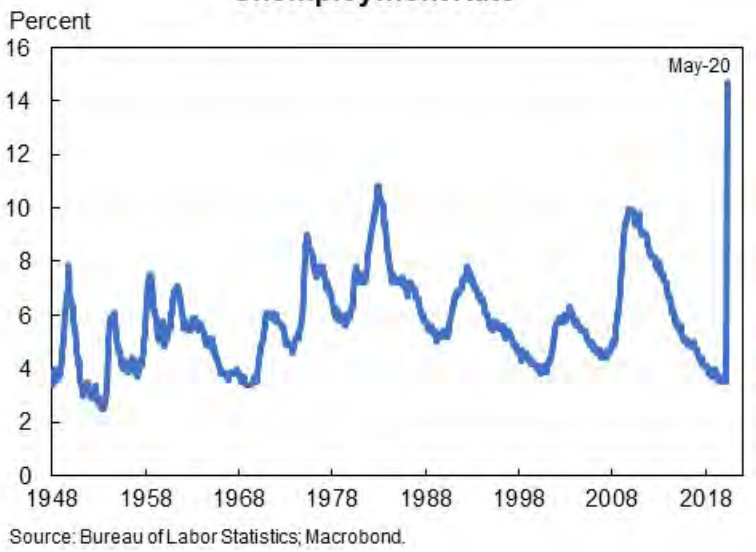
The remainder of my written testimony expands on these eight points.

1. The unemployment crisis is severe

The 13.3 percent official unemployment rate in May 2020 was higher than any month since the modern data series began in 1948 with the exception of April 2020, as shown in Figure 1. Moreover, the officially reported unemployment rate understates the true extent of unemployment for two reasons. First, the data include what the Bureau of Labor Statistics (BLS) has called a "misclassification error" in that it does not count an additional 4.9 million workers who reported being "out of work for other reasons" as unemployed. While the BLS properly maintained its standard operating procedure of not making ad hoc adjustments, economists generally agree that most of this group should be classified as unemployed—which would raise the unemployment rate to 16.4 percent.

Second, an unusually large number of people stopped looking for work in April and May. If just the excess reduction in labor supply, above and beyond the normal reduction in labor supply associated with high unemployment, was classified instead as unemployed that, together with adjusting for the "misclassification error," would further raise the unemployment rate to 17.1 percent, what I call the "realistic unemployment rate," and is shown in Figure 2 (Furman and Powell 2020).

Figure 1
Unemployment Rate

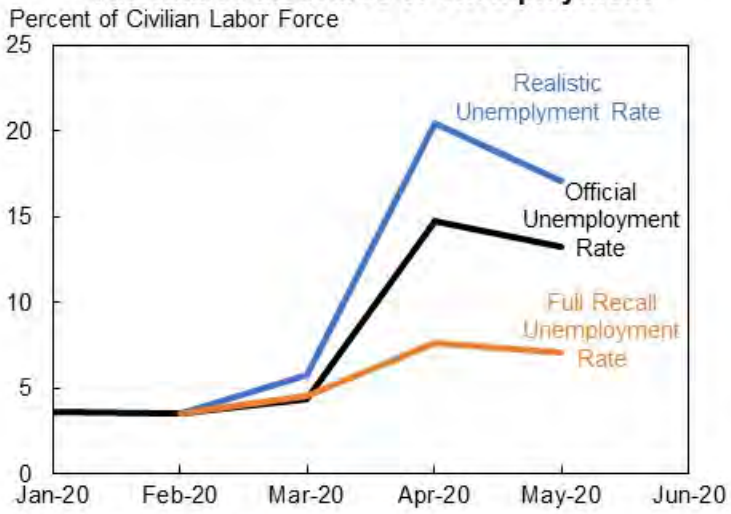


In May 15.3 million workers reported being on temporary layoff, much higher than the 801,000 in February.[1] Historically about 70 percent of workers on temporary furloughs return to their jobs, but this historic experience may not be applicable in the current circumstances (Katz and Meyer 1990). Assuming optimistically that all workers newly on temporary layoff had returned to their jobs (and following the BLS in counting those "not at work for other reasons" as employed) and also assuming that people re-enter the labor force consistent with the historic

[1] Note that the BLS changed its procedures and adopted a relatively broad definition of temporary layoff, so this number may include workers who have not in fact been furloughed from their jobs but were actually fired (see #8 in BLS (2020) for a full discussion).

relationship between the change in labor force participation rate and the change in the unemployment rate, the "full recall unemployment rate" would have been 7.1 percent in May. This itself is an optimistic measure of what would happen if the pandemic ended immediately and would, itself, still be a mild recession.

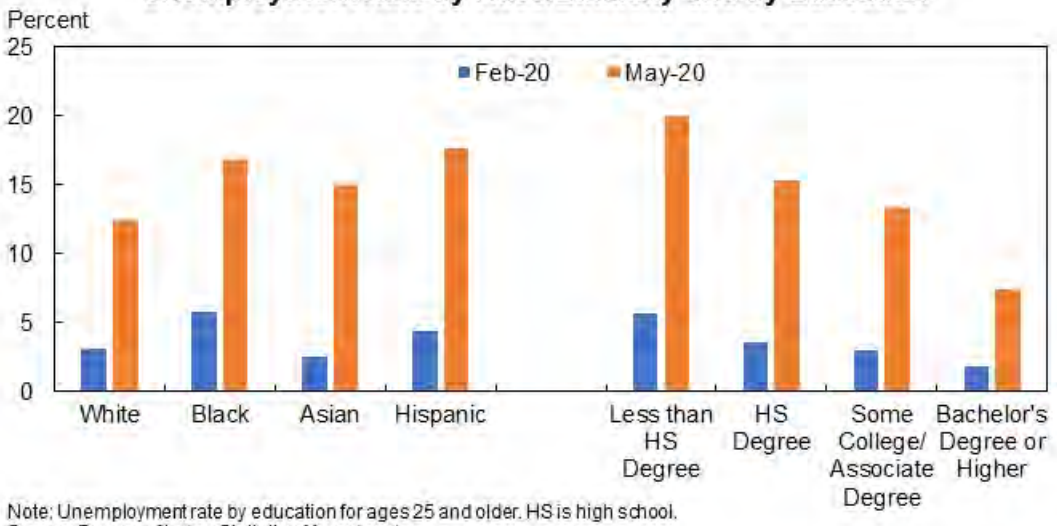
Figure 2
Alternative Measures of Unemployment



Source: Furman and Powell (2020).

As has always been the case, the brunt of the job losses are born by the households who are in the worst position to bear those losses—Blacks, Hispanics, and those with lower levels of educational attainment, as shown in Figure 3 (note, this figure does not include the additional 4.9 million who were "out of work for other reasons"). Overall, the employment rate for Black Americans was 49.6 percent in May compared with 52.8 percent for Hispanics and 53.4 percent for whites.

Figure 3
Unemployment Rate by Race/Ethnicity and by Education



Note: Unemployment rate by education for ages 25 and older. HS is high school.
Source: Bureau of Labor Statistics; Macrobond.

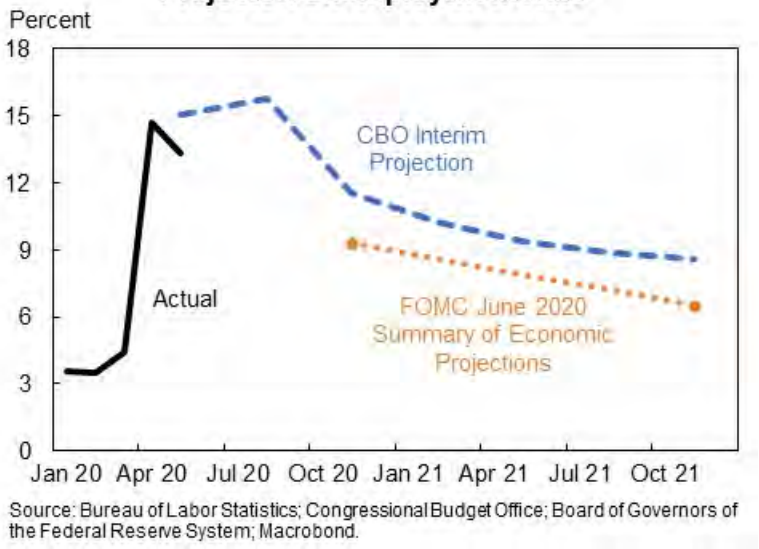
It is impossible to make a precise forecast of the unemployment rate given the uncertainty about the virus, the impact the virus is having on the economy, and the general uncertainty in all economic forecasts. Three facts, however, are likely to be true:

1. Large numbers of people will continue to gain jobs every month, but also large numbers of people will continue to lose jobs every month. Although gross flows of jobs always greatly exceed net flows, this appears to be happening to a vastly greater degree—as evidenced by the fact that initial unemployment insurance claims in May were still more than double what they were during the worst pre-pandemic recession, even though jobs were added on net during the month. This is also evidenced by the fact that flows from employment to unemployment were the second largest on record in May (the largest was in April).

2. The unemployment rate, consistently measured, is likely to fall further. The gross job gains likely are exceeding the continued gross job losses so that the unemployment rate corrected for the misclassification error likely fell further in June and probably will continue to fall as consumer behavior and government policy support greater degrees of reopening.

3. The unemployment rate will remain at a recessionary level for some time, very likely through the end of 2020 and likely for 2021 as well. The Congressional Budget Office (CBO), for example, projects that if no additional legislation is passed by Congress, the unemployment rate will be 11.5 percent at the end of 2020 and 8.6 percent at the end of 2021, as shown in Figure 4. The median forecast of members of the Federal Reserve's Open Market Committee is also for unemployment to be elevated through at least the end of 2022, although they are less pessimistic than CBO—possibly reflecting that they made their forecast after the latest employment numbers and also implicitly assume some probability of future Congressional action.

Figure 4
Projected Unemployment Rate



Source: Bureau of Labor Statistics; Congressional Budget Office; Board of Governors of the Federal Reserve System; Macrobond.

2. Unemployment insurance has played a critical role both for the workers who have lost their jobs and for the economy as a whole

Tens of millions of Americans have lost their jobs, but the large majority of them have been at least temporarily protected by expanded unemployment insurance. The Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted on March 27, 2020, made four changes to unemployment insurance. First, *Pandemic Emergency Unemployment Compensation* (PEUC) provides an additional 13 weeks of unemployment compensation through December 31, 2020, for workers who exhaust state-provided unemployment compensation benefits. Second, *Pandemic Unemployment Assistance* (PUA) provides up to 39 weeks of unemployment benefits to individuals who are not eligible for regular unemployment compensation or extended benefits, including the self-employed, independent contractors, workers for certain religious entities, those seeking part-time employment, those who had to leave a job to care for a child whose school or daycare closed as a result of the virus, and individuals lacking sufficient work history, among others. The PUA program expires December 31, 2020. Third, *Federal Pandemic Unemployment Compensation* (FPUC), set to expire by July 31, 2020, provides eligible individuals with $600 per week on top of the weekly benefit amount she or he receives through regular or pandemic unemployment insurance or, in some states, short-time compensation. Fourth, the federal government reimburses states with existing *Short-time Compensation (STC)* programs for the entire cost of STC benefits (up to the equivalent of 26 weeks of total unemployment benefits per worker) through the end of 2020. In addition, the act provides federal funding to cover up to half of the cost of new programs that are implemented by states by December 2020 and provides additional grants for implementing new programs.

As a result of these changes, it appears that about 35 million Americans were either receiving unemployment benefits or had applied for benefits by around May 30th, although there may be some double counting in state administrative reports (Shierholz 2020). This includes 19 million on regular state unemployment insurance, 10 million on PUA, and 7 million either waiting for their claims to be processed or on other programs like PEUC or STC as shown in Figure 5a, which is based on Department of Labor administrative data and presented as in Shierholz (2020). Altogether this number has been rising but might be starting to stabilize and fall as the overall unemployment situation gets less bad, as shown in Figure 5b.

Figure 5a

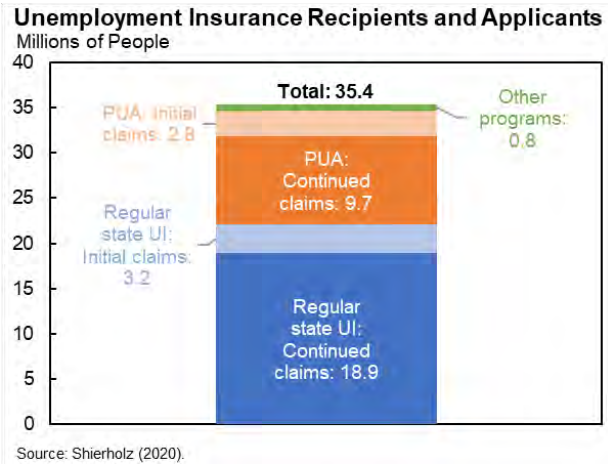
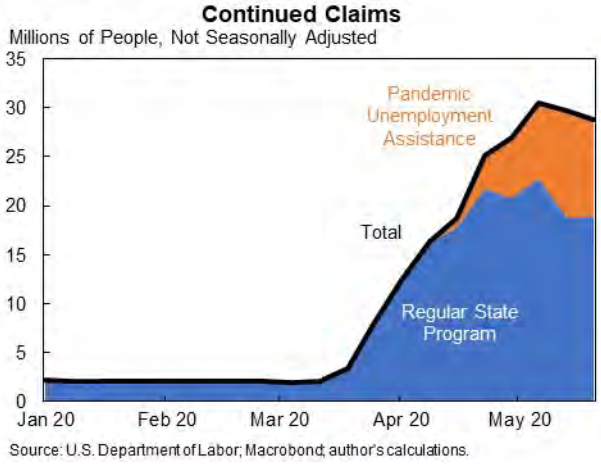


Figure 5b



Because of FPUC, workers on unemployment insurance are generally getting an additional $600 per week on top of their regular state benefits, an amount that generally replaces at least 100 percent of wages for anyone making up to about average wages. Given that unemployment is generally concentrated among the lower-paid workers, this has resulted in benefits exceeding previous wages for about 68 percent of workers, and possibly higher when adjusted for the composition of the recent job losers (Ganong, Noel, and Vavra 2020).

The unemployment insurance system has effectively protected the majority of workers from large income losses. Research examining unemployment insurance suggests that, in its absence, a typical family whose head of household becomes unemployed would spend 22 percent less on food, compared with the 7 percent drop that is actually observed because of income replacement by unemployment insurance (Gruber 1997). Given the additional $600 federal benefit, it is likely that current benefits are doing an even better job at replacing incomes.

This has also had macroeconomic benefits that have spilled over and helped limit the severity of the recession and support jobs and incomes for tens of millions of workers and businesses that have not directly received any benefits. The Bureau of Economic Analysis (BEA) reported that disposable personal income in April rose by a record 13 percent. These higher incomes helped support a surprisingly large rebound of consumption in May, with retail sales up 18 percent from April. Overall retail sales in May were down 6 percent from the previous May, a surprisingly small reduction given how many stores were still closed—and much smaller than the 12 percent reduction in the peak of the financial crisis. This increase in consumption not only helped businesses but also likely supported the 2.5 million jobs that were added in May.

Economists have found that unemployment insurance has among the highest multipliers of any policy because it gives money to people when they are temporarily low-income, helping them smooth their consumption and thus boosting total consumption. In 2011, then-CBO Director Douglas Elmendorf testified that increasing aid to the unemployed is among the policies that would have "the largest effects on output and employment per dollar of budgetary cost," and Auerbach and Feenberg (2000) found that unemployment insurance played a stabilization role well in excess of its relatively small share of the federal budget in recent downturns. CBO (2014) assumed a multiplier of 0.4 to 2.1.

3. Unemployment insurance has both positive and negative effects on labor supply, and it can have positive effects on labor market matches

As just discussed, unemployment insurance has a large, positive effect on aggregate demand by supporting increased consumption and thus overall economic activity. Unemployment insurance also affects the supply side of the economy through labor supply, with both positive and negative effects.

Unemployment insurance can help labor supply by keeping people more attached to the labor force in two ways. First, people on unemployment insurance typically have to be actively looking for jobs and thus have to stay in the labor force. Absent unemployment insurance some

of them might drop out of the labor force entirely. Jesse Rothstein (2011) has found that the majority of the modest increase in measured unemployment caused by the availability of extended unemployment insurance benefits in the Great Recession was attributable to lowering the number of people who give up looking for work and leave the labor force rather than to lowering the number who become employed. Likewise, Farber and Valletta (2015) examine benefit extensions in both the early 2000s recession and the 2007–09 recession and find a small but statistically significant reduction in exits from unemployment to nonparticipation in the labor force. Meanwhile, Farber, Rothstein, and Valletta (2015) find that the phaseout of extended benefits since 2012 has lowered the unemployment rate by increasing exits from the labor force. This "attachment effect" of unemployment insurance is particularly important given the many negative effects—on everything from future earnings to wellbeing and even mortality—associated with nonemployment, which is likely easier to exit from unemployment than from being outside of the workforce altogether (Council of Economic Advisers 2016).

Second, when people exhaust unemployment insurance benefits, some can shift onto disability insurance benefits in order to continue to protect their incomes. Unlike unemployment insurance, disability insurance does not have job search requirements—and, in fact, it effectively has the opposite—with people losing their disability insurance if they take jobs. Historically relatively few people who get on disability insurance ever leave it, resulting in permanent exit from the labor force. Keeping people on unemployment insurance and off disability insurance by, for example, extending benefits can help keep people in the labor force and available for work when they are able to find it.

In the absence of unemployment insurance, workers would be more likely to take one of the first jobs offered to them because they could not afford to continue searching for a better job. In many cases, this could result in less efficient matches between employees and employers, leaving workers and the economy worse off in the long run. While empirical research on the existence and magnitude of the effect of unemployment insurance on match quality is limited, in part because of the difficulty of isolating how much of unemployment duration is due to workers holding out for a better job match, work by Nekoei and Weber (2017) finds that unemployment insurance does, in fact, increase the quality of recipients' job matches.

Set against these benefits of unemployment insurance for labor supply, is the fact that by providing additional assistance it effectively acts as a high tax rate on work—which could discourage work. A range of economic research found a spike in exits from unemployment insurance when benefits were exhausted (Moffit 1985; Katz and Meyer 1990; Feldstein 2005). Subsequent research found that this spike was the result of people giving up looking for jobs (thus moving from unemployed to out of the labor force) instead of actually getting jobs (Card, Chetty, and Weber 2007). Raj Chetty (2013) summarized the research as finding that policymakers "can extend unemployment benefits to provide assistance to those out of work without substantially increasing unemployment rates."

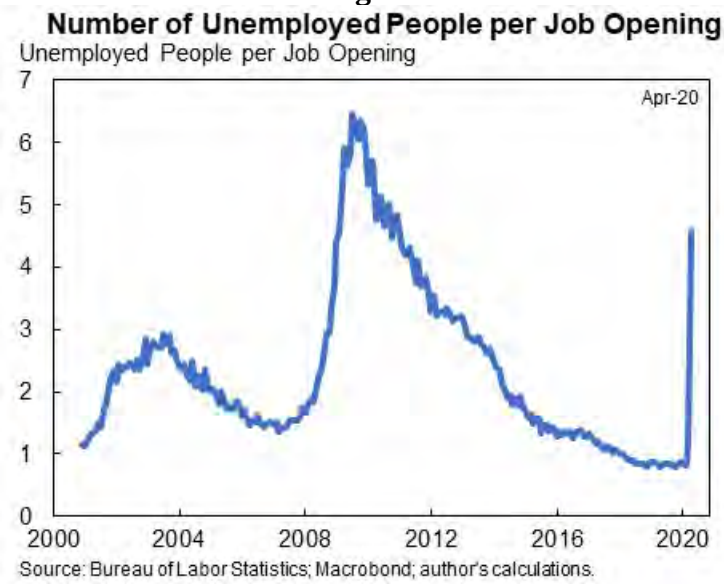
This previous research, however, did not study periods where many workers faced replacement rates in excess of 100 percent. Common sense and a number of anecdotes support the view that benefits at these levels are having at least some negative effect on labor supply. These negative effects are limited to some degree by the fact that furloughed workers cannot continue to receive

these benefits when they are called back to work by their employers, a provision that is being enforced in many states and is likely more binding in the current recession than previous ones because so much of the job losses have been temporary layoffs and job gains have been when these workers were called back to work. Moreover, applications have reportedly been high for lower-paid jobs at expanding employers, indicating that many people would still rather have the security of a job, especially one with benefits, than a temporary period of higher unemployment insurance.

4. Jobs are currently constrained primarily by lack of demand by employers not by lack of supply of people interested and willing to work

In April there were 4.6 unemployed people, including workers on temporary furlough, for every job opening, a dramatic reversal from the 0.8 unemployed people per job opening in February, as shown in Figure 6. As some workers get called back from furloughs and others see their jobs permanently lost, this ratio will become increasingly meaningful. For now, however, the constraint on jobs appears to be more that employers were not hiring than that employees were unwilling to take jobs. This is also true because of return-to-work rules in unemployment insurance and the fact that many unemployed individuals are not eligible for unemployment insurance even under the broader eligibility provided in the CARES act. New entrants, recent high school or college graduates, and those with no prior earnings all cannot collect unemployment insurance. Thus, there are many individuals ready to be hired regardless of the effect of unemployment insurance generosity.

Figure 6



Employers were not hiring either because their businesses were closed by stay-at-home orders or they lacked demand from customers who were either afraid of the virus or concerned about their future incomes. As a result, even to the degree there have been any reductions in some people's interest in and willingness to work, it likely has not been a meaningfully binding constraint on the overall level of economic activity in April, May, and June.

5. Expanded unemployment insurance should continue and adjust with changes in the unemployment rate

An optimal unemployment insurance system balances consumption smoothing for households that are impacted by job losses and any work disincentives from high effective marginal tax rates on returning to jobs. Economists have found that the optimal balance between these two considerations depends on the unemployment rate (Baily 1978 and Chetty 2008). When unemployment is high, as it is now, the biggest problem is the total number of jobs and not whether people want to take them. As a result, unemployment can and should be generous both in terms of benefit levels and benefit duration. In contrast, when unemployment rates are low—as they were in February—then it is important to place more weight on not discouraging people from taking jobs and so the optimal unemployment insurance benefits and duration should be lower. This intuition has since been confirmed by additional research, including Kroft and Notowidigdo (2016) and Schmieder, von Wachter, and Bender (2012).

It is not practical for policymakers to make frequent ad hoc adjustments to the parameters of unemployment insurance, especially now when the unemployment rate is rapidly changing by large amounts. Instead, it is preferable for Congress to legislate an automatic system of triggers that would expand and extend unemployment insurance as needed, as has been proposed by Chodorow-Reich and Coglianese (2019) and O'Leary and Wandner (2018), among others.

This week I released a bipartisan proposal as part of an Economic Strategy Group taskforce with Glenn Hubbard (chairman of the Council of Economic Advisers under President Bush), Timothy Geithner (Secretary of the Treasury under President Obama), and Melissa Kearney (Director of the Economic Strategy Group). Our proposal called for shifting from a flat dollar formula to an additional replacement rate as a way to ensure that people are not getting replacement rates in excess of 100 percent. Although states have administrative constraints that prevented this when the CARES Act was enacted, given sufficient time they could shift to this system. Until then they could opt to stay on a flat benefit formula.

Our proposal would add a federal supplement of up to 40 percent of wages, capped at $400, when a state's unemployment rate was particularly high, around 15 percent. This supplemental benefit would scale down with the unemployment rate and would end when the state's unemployment rate fell to about 7 percent. In addition, we propose full federal funding of extended benefits and reform of the triggers so that additional weeks of unemployment insurance would also be available based on a state's unemployment rate.

The cost of our proposal would depend on economic circumstances. If the economy is on track for a rapid, V-shaped recovery, then this approach would cost less than $100 billion. But if the economy faces prolonged high levels of unemployment, then it would cost more than $500 billion.

Representative Beyer and Senators Bennet and Reed recently proposed important legislation that would work towards this goal by linking the duration and magnitude of unemployment insurance benefits to economic conditions. I strongly encourage Congress to legislate such automatic triggers for unemployment insurance.

6. The abrupt expiration of any form of expanded unemployment insurance at the end of July would create problems both for those workers directly affected and for the economy as a whole, reducing GDP by about 2½ percent in the second half of this year—more than a typical year's worth of economic growth

There is room for debate over the precise form that additional unemployment insurance benefits should take after their expiration by July 31, 2020. My preference for the next round of benefit expansions and extensions is to have triggers linked to the unemployment rate, but an extension for a fixed period of time, along the lines of the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act passed by the House of Representatives, would be a reasonable alternative. What is clear, however, is that doing nothing and allowing all of the additional federal assistance to lapse after July would be economically harmful.

It is very likely the unemployment rate will still be highly elevated at the end of July, likely higher than its peak in the Great Recession. This is both because the direct effects of the virus on limiting economic activity and also the indirect effects that a weakened economy has on further spending and economic activity.

Assume for the sake of illustration that 20 million people are still on unemployment insurance then. The complete expiration of federal supplements to unemployment insurance would be a large direct reduction in income for these people. From the perspective of the economy as a whole it would remove about $50 billion a month from the economy relative to the previous policy. Although it might increase labor supply, it is inconceivable that many of the 20 million people could quickly go out and get jobs when the relevant constraint, as discussed above, is on the total number of jobs. As a result, they would reduce their spending—hurting other businesses, costing other workers their jobs, reducing mortgage payments and thus straining the financial system and lowering overall GDP.

I quantify these effects by using a methodology similar to that used in the past by the CBO (2014) and the Council of Economic Advisers (2009, 2014), which assumes a multiplier of 1.5 for aid to directly affected individuals (roughly the mid-point of the CBO estimates). I try to use estimates for the unemployment rate consistent with the latest CBO interim projections (2020). In order to have a neutral baseline I use the continuation of $600 a week, although if that was scaled down over time it should also be supplemented by additional fiscal measures—as discussed in the net section.

The result is that relative to the full continuation of expanded unemployment insurance, the expiration would subtract 2.5 percent of GDP on average in the second half of this year, costing an average of 2 million jobs over the next year, and raising the unemployment rate by up to 1.2 percentage point, as shown in Figures 7a and 7b. These costs would not just be borne by the currently unemployed who would be losing benefits but more broadly across the economy.

Figure 7a

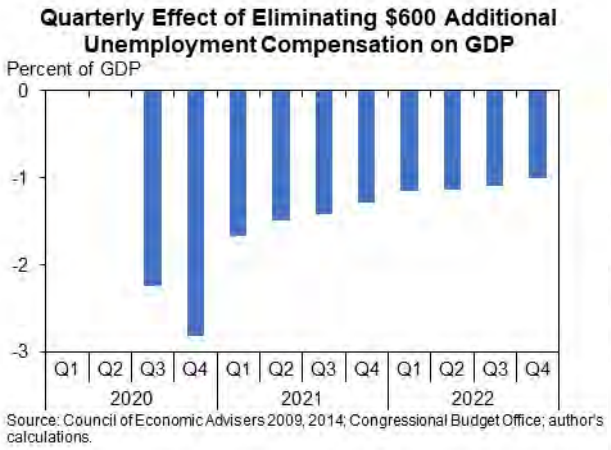
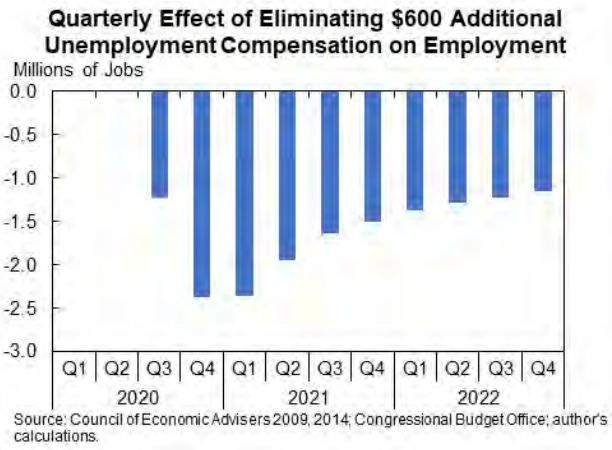


Figure 7b



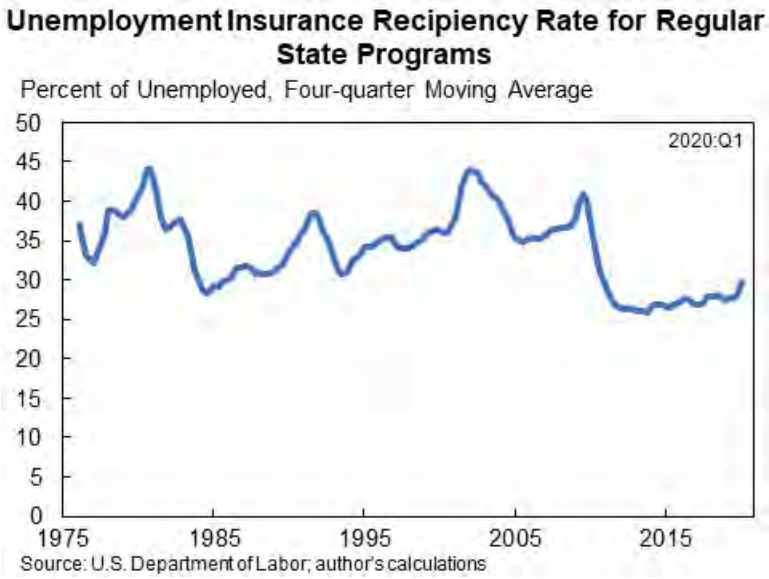
Two caveats for this illustrative analysis are in order. First, it does not include labor supply effects. As discussed above, unemployment insurance has both positive and negative labor supply effects. These effects have not been very important to date but could become more important as the economy recovers. Second, the analysis does not reflect the degree to which some households can at least temporarily smooth their consumption based on what appears to be improved balance sheets for many households following a period of increased transfers and reduced consumption. Nevertheless the key point remains: the expiration of unemployment insurance would not just hurt the people directly relying on it, it would hurt all of us.

7. The unemployment insurance system had major shortcomings before the COVID crisis and it should be permanently reformed

The unemployment insurance system has played a critical role in our economy. Nevertheless, the system designed in the 1930s and administered separately by 50 states and the District of Columbia has a number of shortcomings, many of which have been exacerbated by economic trends in recent decades—and it may be impossible to address all of these issues without federalizing unemployment insurance. Although Congress likely does not have the time to pass a thorough and permanent reform before the expiration of expanded benefits by the end of July, such a reform should be a priority. Below I describe six particular issues that should be addressed in such a reform:

1. Declining coverage of unemployment insurance. The fraction of unemployed workers covered by unemployment insurance, the "recipiency rate," fell sharply after the 2007-9 recession and remained near record lows leading up to the pandemic, as shown in Figure 8. In part this is because many states have cut the maximum benefit duration (6 states now cover fewer than 26 weeks with Florida and North Carolina covering only 12 weeks), tightened eligibility requirements, have antiquated computer systems and other procedures that can make applying difficult and do not cover undocumented workers (Center on Budget and Policy Priorities 2020). In addition, changing work patterns have also created challenges for the traditional program. The size of the temporary PUA program is evidence of the necessity of permanent reform.

Figure 8



2. Insolvency of state programs. In the Great Recession 36 states had to borrow from the federal government because they exhausted their unemployment insurance trust funds. It is important to note, though, that declining solvency was an issue even before the Great Recession. According to a 2010 report from the Government Accountability Office (GAO), from 1938 to 1973, State unemployment insurance trust funds held average year-end reserves, net of loans, equal to 5.1 percent of wages, and never dropped below 2 percent. From 1974 to 2008, that average fell to 1.0 percent of wages and has never been as high as 2 percent. Unemployment insurance tax contributions as a percentage of unemployment insurance-covered wages have trended downward in recent decades, from an annual national average of 1.15 percent from 1979 to 1988 to 0.65 percent from 1999 to 2008 (GAO 2010).

3. Ineffective countercyclical triggers. As discussed above, countercyclical triggers are essential in unemployment insurance. On paper, Extended Benefits serve this purpose with additional weeks of benefits triggered by a rapid increase in the unemployment rate. This program, however, is highly ineffective because it only covers half of the cost and goes away with prolonged high unemployment.

4. Incentives to reduce employment but not hours. If an employer has less business and needs to reduce its total labor input then unemployment insurance creates an incentive to fire or furlough some workers instead of reducing hours for a larger number of workers. At a minimum, public policy should create a level playing field between reduced employment and reduced hours. Arguably, it should have a thumb on the scale to try to maintain employment relationships by encouraging hours reductions instead of layoffs, as Germany successfully did in the financial crisis. Today 26 states covering about two-thirds of workers have operational Short-time Compensation (STC) programs but most of these are so unknown and/or difficult to participate in that take-up has been extremely low (U.S. Department of Labor n.d.).

5. Insufficient support for job search. The United States spends only 0.1 percent of GDP on active labor market policies, like job search and training, below its historic value and the lowest among advanced economies in the Organisation for Economic Co-operation and Development (OECD 2019). These policies provide more help for individuals in other countries to find jobs by providing more support during unemployment (when individuals must also search for work) and making reemployment more likely through skill-building and facilitating job-matching. A reformed unemployment insurance system should provide better support for jobseekers, including potentially a jobseekers allowance (EPI 2020), as well as those who want to retool and retrain to take advantage of new opportunities in the job market. These changes would help ensure that unemployment insurance recipients are more likely to remain attached to the workforce.

6. Insufficient insurance against adverse reemployment prospects. Unemployment insurance protects workers against the risk of not being able to find a job. In some cases, workers—especially older workers—will be able to find jobs but at lower wages than their previous employment. This risk should be covered with a program of "wage insurance" that partially protects older workers who are less able to get new training and be on an upward wage trajectory against lost wages and helps speed their return to the labor market (Kletzer and Rosen 2006).

Proposals that address some or all aspects of these include one put out by the Center for American Progress, Georgetown Center on Poverty and Inequality and National Employment Law Project (West et al. 2016), one put forward by President Obama in 2016 (White House 2016), and some elements from the Economic Strategy Group taskforce report I co-authored with Hubbard, Geithner and Kearney (2020).

8. Unemployment insurance, by itself, is insufficient for what could be a long-lasting jobs recession

My testimony today has focused on unemployment insurance. Addressing the unemployment pandemic that is the focus of this hearing will take more than just expanding and extending unemployment insurance.

More important than any economic policy is getting the health response right. Having the appropriate policies to prevent the increased spread of the virus, testing, tracing and isolation, adequate medical supplies and capacity, improved treatments and ultimately a vaccine. No economic policy can make up for failure in these dimensions and Congress should be willing to spend any amount to achieve these goals.

The best step for economic policy is to prevent further job losses. The largest sector of the economy that experienced substantial continued job losses in May was state and local governments, which shed 1.5 million jobs in April and May, with 1 million of them in education. Additional job losses will follow if states and localities have to make large budget cuts to satisfy their balanced budget requirements in the face of rapid declines in tax revenues. The Center for Budget and Policy Priorities estimates that state revenues will decline by 10 percent in fiscal year

2020 alone, which ends June 30 in most states, and by as much as 25 percent in fiscal year 2021 (McNichol and Leachman 2020). They estimate the total shortfall for states alone—not counting local governments—of $615 billion over fiscal years 2020, 2021, and 2022, an estimate consistent with CBO and Federal Reserve Board projections for unemployment given the historic relationship between unemployment and state revenue reductions (Fiedler, Furman and Powell 2019). The HEROES Act passed by the House of Representatives would provide substantial additional assistance to states and localities. This idea is widely supported by economists, as evidenced by its inclusion in the Economic Strategy Group taskforce proposal I co-authored with Hubbard, Geithner and Kearney. Such assistance should be tied to triggers based on economic conditions, as I proposed together with Matthew Fiedler and Wilson Powell (Fiedler, Furman, and Powell 2019).

The second-best step is to speed up the rehiring of people and to ensure that it can be done safely and that people are able to work. Doing that will require more effectively managing the spread of the virus with testing, tracing, treatments and, eventually, a vaccine as well as ensuring that regulations effectively protect workers, like the Occupational Health and Safety Administration (OSHA) issuing temporary standards. It will also require sufficient demand so that people can afford to shop, go to restaurants and support the economy. As discussed above, unemployment insurance contributes to this. But other transfers, like expanding the Supplemental Nutrition Assistance Program (SNAP), are essential for the increasing number of families facing food insecurity and also have high macroeconomic multipliers. Hoynes and Schanzenbach (2019) proposed tying expanded SNAP benefits to economic conditions—something not just motivated by macroeconomic considerations but most importantly because as many as 38 percent of households with children are currently experiencing food insecurity (Schanzenbach and Pitts 2020). Finally, making work pay better will speed up the re-entry of people into the workforce, my taskforce proposed a temporary “pandemic Earned Income Tax Credit” which is the most efficient and equitable approach, in contrast to a hiring bonus which would unfairly result in different employees being paid different amounts.

Finally, many people will not be rehired by their old jobs because of the substantial amount of reallocation that appears to be taking place (Barrero, Bloom, and Davis 2020). Policy will need to both help create new jobs and also help better prepare workers for these jobs, for example through increased infrastructure and training programs and continued permanent efforts to make work pay.

In conclusion,

American workers faced significant challenges even before the pandemic. The pandemic has caused an unemployment crisis that is likely to have lingering effects for a long time. It is essential to both protect workers from the consequences of this crisis and to speed up the economic recovery. I have outlined some ideas to help achieve these goals in my testimony today and I look forward to taking your questions.

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