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**Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets**

**Hearing on “Capital Markets and Emergency Lending in the COVID-19 Era”**

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Chairman Sherman, Ranking Member Huizenga and members of the Subcommittee, it is an honor to participate in today’s hearing on capital markets and emergency lending in the COVID-19 era.

**I. Introduction**

The 2020 COVID-19 pandemic has triggered the deepest downturn in output and employment since World War II. Americans have experienced the downturn broadly across sectors, yet unequally across racial groups and categories of workers. Blacks, Latinos and Native Americans along with low-wage workers have borne the health and financial costs of this pandemic.

With the CBO now projecting real gross domestic product (GDP) to recover to its pre-pandemic level only by the middle of 2022,<sup>i</sup> policymakers should be thinking now about not only how to address urgent economic issues but also how to position the U.S. economy for a broad-based and equitable rebound that harnesses the potential of the tens of millions of Americans who are currently unemployed or underemployed.

To position the economy for a robust recovery from this specific downturn, Congress and other policymakers must craft policy and fiscal responses that address the particular characteristics of this COVID-19 economic recession. Briefly, what we think of as a public health crisis has also deepened an existing equity crisis for Blacks, Latinos, and Native Americans. In addition, the pandemic recession specifically threatens the financial and general well-being of tens of millions of American workers.

Those characteristics of this recession demand policy solutions that actively reduce racism and the growing inequality that has been the most recent hallmark of the pre-pandemic economy. Those solutions should focus on three broad efforts:

1. Closing the racial wealth gap
2. Improving wages and opportunities for upward mobility for Americans who earn low wages
3. Eliminating the existing health disparities that are prevalent in low-income communities of color

While there is a pervasive rhetoric about returning to “normal,” that is, to the immediate pre-pandemic past, what I want to impress upon you today is that a robust American economy will require that we do not return to the status quo ante, because the status quo ante has meant the perpetuation of racism in our economy as well as the continuation of financial and health insecurity for almost half of the American workforce.

We, therefore, should work to establish a set of goals that simultaneously speak to the breadth and the quality of the recovery. A high-quality recovery is one that puts the U.S. in a position to accelerate economic growth by generating jobs that provide economic security across a wide range of sectors and by addressing the disparate economic consequences of the pandemic on communities of color and low wage workers.

## II. The Pre-pandemic Economy

The COVID-19 pandemic and the ensuing recession have exposed the financial fragility of millions of American families, the health legacy of racism and exclusion, made us understand that we depend on Brown and Black Americans for our fruits and vegetables, our meats, poultry, and seafood, our groceries more generally, our transportation, our nursing home care, for cleaning our homes, taking care of our children and for the sanitation of our streets and our hospitals. In short, the COVID-19 pandemic has highlighted the choices we have made as nation about who was included and who was excluded from the robust economy prior to March of 2020.

A review of where we were prior to March 2020 underscores why it is important to make other choices now.

**Black unemployment remained high.** Immediately prior to the pandemic, our national unemployment rate was 3.5% in February of 2020<sup>ii</sup>, yet our Black unemployment rate was 6.8%. With a Black unemployment rate roughly double that of whites, it is apparent that the pre-pandemic economy was not at full potential, likely something we will not want to embrace as we start to gain traction in a competitive global context.

**The Black/white wealth gap remained a constant feature of the American economy.** Prior to COVID-19, Black households held a tenth of the wealth that white households held.<sup>iii</sup> At \$171,000, the net worth of a typical white family was nearly ten times greater than that of a Black family (\$17,150) in 2016 and reflected the effects of accumulated

inequality and discrimination, as well as differences in power and opportunity that can be traced back to this nation's inception. The Black-white wealth gap reflects a society that has not and does not afford equality of opportunity to all its citizens and is therefore an economy which is not operating at full potential. Moreover, recent research demonstrates that since 2010, the racial wealth gap between Black and white households actually increased, suggesting a pre-pandemic context of narrowing opportunities for Black Americans.<sup>iv</sup>

**The Black/white income gap increased.** Beyond wealth accumulation, the pre-pandemic economy was characterized by persistent income inequality between Blacks and whites. The difference in median household incomes between white and Black Americans grew from about \$23,800 in 1970 to roughly \$33,000 in 2018 (as measured in 2018 dollars). Median black household income was 61% of median white household income in 2018.<sup>v</sup>

**Communities of color experienced persistent health vulnerabilities.** We also do not want to return to the pre-pandemic health and well-being environment. In the pre-pandemic environment, we find that as a consequence of endemic racism<sup>vi</sup>, communities of color had higher incidences of preventable but dangerous diseases -- hypertension, asthma, obesity, and diabetes.<sup>vii</sup> And these are precisely the diseases that place Americans of color at higher risk of contracting and dying from COVID-19.

**The mortality rate of poor whites increased.** In addition, prior to the pandemic, poor whites were also experiencing poor well-being outcomes -- their death rates were disproportionately high, particularly in post-industrial areas with few jobs and with access to opioids.<sup>viii</sup>

**Low-wage workers bore the brunt of the economic expansion that began in 2010.** Prior to the pandemic, our growth economy was built on the expansion of low wage jobs<sup>ix</sup> where 53 million Americans between the ages of 18 to 64 — accounting for 44% of all workers — qualified as 'low-wage.' Their median hourly wages were \$10.22, and median annual earnings were about \$18,000.<sup>x</sup>

**Low-wage workers were more vulnerable to the impacts of the pandemic.** Not surprisingly, then, women, and particularly women of color, were the most vulnerable to the effects of the pandemic-induced recession. Nationally, prior to the pandemic, 32% of male workers made less than \$15 an hour. However, a higher percentage, 42%, of women workers were in the same situation. By race, 38% of white women, 49% of black women, and a staggering 57% of Hispanic women were low wage earners prior to the pandemic recession. In nine states, more than half of all women are low wage workers. The majority of Latina women are low wage earners in 43 states and of Black women in 28 states. Men of color were also disproportionately vulnerable to this recession: 49% of Latino men and 45% of Black men made less than \$15 an hour, compared to 28% of white men. The majority of Latinos and the majority of Black men made less than \$15 an hour in 24 and 19 states respectively.<sup>xi</sup>

**The health insurance status of millions of Americans was precarious.** Before the pandemic, millions of Americans were losing health insurance.<sup>xii</sup> Since the pandemic, the most recent estimate is that as of May 2020, nearly 27 million people in the U.S. may have lost employer-sponsored insurance due to the deep job losses brought on by the COVID-19 pandemic.<sup>xiii</sup>

What each of these statistics illustrates is that the pre-pandemic economy was one of great insecurity and inequity for millions of Americans. Importantly, the picture of a pre-pandemic American economy, appearing robust, but weakened by the tapeworms of inequity and inequality existed within the context of growing inequality overall in the U.S. where, over the past 50 years, the highest-earning quintile of U.S. households has steadily brought in a larger share of the country's total income. In 2018, for example, households in the top fifth of earners (with incomes of \$130,001 or more that year) brought in 52% of all U.S. income, more than the lower four-fifths combined, according to Census Bureau data.<sup>xiv</sup> In addition, the wealth gap between America's richest and poorer families more than doubled from 1989 to 2016. And finally, to put the U.S. figures in a global context, income inequality in the U.S. is the highest of all the G7 nations, according to data from the Organization for Economic Cooperation and Development (OECD).<sup>xv</sup>

As a result of the policy and fiscal choices we made prior to the pandemic, headline GDP and unemployment figures that were clearly strong coexisted with a widely experienced deep financial insecurity and poor health outcomes.

### **III. Characteristics of the current COVID-19 crisis**

The COVID-19 pandemic has only served to exacerbate the degree to which racism and inequality led to the exclusion of large segments of the American population from our booming pre-pandemic economy. As we now know, the COVID-19 pandemic has had a disparate and devastating health impact on low income communities and communities of color.

**Blacks, Latinos, and Native Americans are at very high risk of contracting and dying from COVID-19.** As a result of structural conditions, health inequities, and a higher prevalence of preexisting health conditions such as heart disease, asthma, and diabetes, low-income and minority populations face a demonstrably higher risk of dying from COVID-19. In the largest and most recent study drawn from the Centers for Disease Control and Prevention COVID-19 data, it is clear that being either Black or Latino is a risk factor for contracting and dying from the disease. These two communities have been disproportionately affected by the coronavirus in a widespread manner across all geographies and age groups.<sup>xvi</sup> The mortality rate from the virus is nearly three times higher for Black and Latino Americans than for whites. Moreover, other data from the Indian Health Service indicates that Native American populations, too, are adversely affected by COVID-19 which is manifested in very high infection rates.<sup>xvii</sup> Health disparities that existed prior to COVID-19, are the result of conscious policy choices and a set of values

that normalized the exclusion of communities of color from investments that lead to better health outcomes.

**In addition, low-wage workers who are still employed face increased health risks due to the nature of their jobs because they dominate many of the “essential worker” categories.** Common occupations for low-wage workers include cashiers and retail salespersons, many of whom may not be working as businesses have closed; however, those who are working in “essential businesses” that remain open (such as grocery stores) are still in close contact with the public. Other top occupations, such as cooks and waiters/waitresses, may similarly still be working as restaurants move to delivery and take-out options, putting these workers in contact with colleagues and perhaps the public. A notable number of low-wage workers are engaged in positions that are likely involved with delivery of goods and services to people who remain at home under stay at home orders (e.g., laborers/freight, stock and material movers, stockers/order fillers, and drivers/truck drivers).

Moreover, a large number of low-wage workers are working directly in the health care workforce. 3.5 million low-wage workers are in the health and social services industry, with the greatest number of those (1.3 million) working as aides or personal care workers whose jobs will bring them into frequent, close contact with patients. Nearly a million more work as direct contact support workers—jobs such as maids/janitors, housekeeping and laundry, or food service workers—whose jobs also will bring them into direct contact with others. Within these two occupation groups, a third or more of workers are low-wage.

**The economic impacts of COVID-19 and the resulting economic depression also disproportionately fall on low-wage workers and on Black and Brown workers.** As we saw earlier, **Blacks and Hispanics were more likely to be employed in low-wage jobs** than were whites. Because so many of those jobs were in sectors most devastated by the COVID-19 recession, **the unemployment rate during the pandemic has been highest among Blacks and Hispanics.** <sup>xviii</sup>

**Low-wage workers have experienced deep economic pain and job losses during the pandemic.** Social distancing measures taken in response to COVID-19 resulted in massive job losses concentrated among lower-wage workers. Occupations with lower wages are more common in the shutdown sectors than elsewhere in the economy.<sup>xix</sup> Retail and leisure/hospitality, which typically offer lower wages than other industries, took the hardest hits.

**Low-wage workers with the least education have suffered the most.** In June of 2020, the unemployment rate was 16.6 percent for those with less than a high school degree—more than twice as high as the 6.4 percent unemployment rate for those with a bachelor’s degree or higher.<sup>xx</sup> Financial shocks and unemployment are widespread, but Black and Latino or Hispanic workers are disproportionately affected due to their prevalence in low-wage occupations.

One of the reasons low-wage workers have suffered disproportionate job losses is their limited ability to telework. Low-wage workers are six times less likely to be able to work from home than high-income workers.<sup>xxi</sup> Fewer than 10 percent of leisure and hospitality workers can telework, while a majority of workers in higher-paid fields such as the finance, business, professional, and information sectors can. The vast majority of workers who held jobs prior to the pandemic in restaurants, bars, gyms, salons, movie theaters, and malls could not perform those jobs from home once the pandemic started and were laid off when social distancing requirements caused many of those establishments to close.

**In sum, the economic impact of the COVID-19 recession has hit low-wage workers and Black and Brown Americans especially hard.**

**As we turn the corner into recovery, Blacks and Hispanics continue to face headwinds in employment.** In the early stages of economic recovery, the economic challenges to employment persist for Black, Hispanics, and those without a high school diploma. Even as reopening has begun, Blacks and Hispanics are having a harder time finding employment than whites. As of the most recent BLS unemployment report for June of 2020, it is clear that without some clear support from the U.S. government, the previous patterns of financial insecurity and racial disparities will worsen. What we see is that while the unemployment rate declined to 11.1 percent in June, we see a persistent gap between white unemployment (10.1 percent) and that of Blacks (15.4 percent) and Hispanics (14.5 percent), suggesting that previous racial disparities in unemployment rates will continue. Educational status matters as well: the unemployment rate for those with less than a high school diploma at 16.6 percent is more than double that of those with a Bachelor's degree or higher (6.9 percent).<sup>xxii</sup>

Again, reviewing the most recent BLS data, in the sectors that had the highest proportion of low-wage workers, we see that the recovery has been slow and that low-wage jobs that lead to financial insecurity persist. In June, employment in food services and drinking places rose by 1.5 million, following a gain of the same magnitude in May. Despite these gains, employment in food services and drinking places is down by 3.1 million since February. In addition, employment in retail trade rose by 740,000 in June, but that on net, employment in the industry is 1.3 million jobs lower than in February. While, health care employment increased by 358,000 over the month, job losses in low-wage nursing care facilities, continued (-18,000). Finally, reflecting the increase in low-wage jobs overall, in June, average hourly earnings for all employees on private nonfarm payrolls fell by 35 cents to \$29.37. Average hourly earnings of private-sector production and nonsupervisory employees decreased by 23 cents to \$24.74 in June. The decreases in average hourly earnings largely reflect job gains among lower-paid workers. The conclusion from this most recent jobs report then, is that in industries dominated by low wage workers, there has been at best an anemic growth in jobs and that low-wages that are responsible for financial insecurity persist.

If a recovery has begun, these facts do not augur well for it being a broad-based and equitable recovery.

#### IV. How to Ensure a Broad-based and Equitable Recovery

Although we are in a recession and the trajectory of the COVID-19 pandemic in the U.S. is a source of considerable uncertainty, there are steps that Congress and other policy-makers can take now to ensure that the post-pandemic economy is not one of high inequality and high levels of health and financial inequities engendered by racism.

Here, I outline three specific goals and how Congress can contribute to achieving them.

1. **Closing the racial wealth gap.** Given persistent racial wealth and income gaps, our first goal must be to establish equity goals for the economy. At the current moment, the Fed is charged with managing inflation, the liquidity of various money markets, and attuning its policies to discourage high unemployment. To start the process of redressing racial financial gaps, the Fed should be charged with pegging its policies to lowering the Black unemployment rate until it matches the white unemployment rate.<sup>xxiii</sup> A Fed policy stance that is pegged to improving Black employment has the potential to not only move the economy into higher gear by ensuring that all those who can contribute to growth and innovation are able to do so, but it may also have the effect of lifting the fortunes of others as a collateral effect.

In addition to charging the Fed with a focus on lowering the Black unemployment rate, Congress should do as much as it can to support Black and Latino small businesses, which provide jobs and economic activities at the local level. While all small businesses will need support to rebound, Black and minority owned businesses face more hurdles in accessing liquidity and support services. Black- and minority-owned businesses that continue to operate during and after the recession are about 60 percent less likely than their peers to receive 100 percent of the financing they need, which puts them at additional risk of failure. Black employers are also less likely to seek advice from professionals, possibly reflecting the cost of accessing such services. Because Black and minority owned businesses are a consistent source of employment for Black and other workers of color and local investment, interventions to support their survival are urgent.<sup>xxiv</sup>

The supports to these businesses should not only be focused on providing short term liquidity, but also on incentivizing lending and addressing banks' concerns about the risk of lending to underserved small businesses.

Finally, we should be thinking about how to craft payments to Black families that are designed to remunerate them for the effects of public policies intended to exclude them from participating in the economy.

2. **Improving wages and opportunities for upward mobility for Americans who earn low wages.** As we have seen earlier in this document, our pre-pandemic

economy was one of great insecurity for millions of low-wage workers. With the advent of COVID-19, these Americans' financial worries have continued either because they have lost their jobs or cannot work due to health concerns. With a recession that will be lengthy, it is time to take lessons from the CARES Act and apply them for a sustained period to ensure that low-wage workers can participate in an economic recovery. The CARES Act provided an additional \$600 per week for those who were claiming unemployment insurance (UI). The \$600 per week payments have kept millions of Americans from experiencing a financial catastrophe. Those payments have also kept American businesses afloat because they support consumer spending – groceries, pharmacies, rent, etc. In fact, UI is one of the most effective tools that the government possesses to keep economic activity afloat during a recession – for every \$1 in UI, \$2 in economic activity is generated.<sup>xxv</sup>

Certainly, our current recession would be much more severe without the additional \$600 per week in UI. Using what we have learned here, Congress should authorize that additional \$600 per week as an automatic stabilizer that kicks in when the economy is in recession. That additional \$600 can be deployed by low-wage workers to retrain or to try to find entry-level work in growing sectors of the economy where long-term wage prospects are increasing.

In addition, drawing from other recent Congressional COVID-19 legislation, the Families First Coronavirus Response Act, Congress should mandate that all employers of low-wage workers provide paid leave. This would permit employed low-wage workers to stay home when they or their loved ones are sick without risking losing their jobs or income.

Finally, Congress should pass legislation that lifts the pay of low-wage workers by \$5 an hour. Such an increase would not only decrease significant financial insecurity for millions of Americans, but it would also contribute to increases in consumer spending, generating greater economic activity.

It is also important to note here, that policies that promote payroll tax cuts will not flow to low-wage workers in any significant way and will therefore not be an effective way to raise wages.<sup>xxvi</sup>

3. **Eliminating the existing health access disparities that are prevalent in low-income communities of color.** It has become abundantly clear that long-standing health disparities that plague communities of color are the result of the policy choices that the federal, state, and local governments have made. There are two key issues. One is the physical access to good healthcare and the other is access to culturally sensitive healthcare. Congress can create physical access goals for communities underserved by health professionals and can provide incentives to states and local governments to prioritize easily accessed healthcare centers.



Congress can also create requirements that enable states and local governments to tap additional incentives if some significant percentage of their medical professionals are certified as having completed training in the provision of care in a culturally sensitive manner.

## V. How Do We Pay for These Policies?

It is important to recognize that the U.S. government will spend far more than the currently allotted \$3 trillion to resuscitate the economy. While that may seem problematic from a fiscal perspective, we do have the runway to spend our way out of this crisis. Not all debt is bad – good debt serves the national interest and it is in the national interest to restart the economy. In addition, the U.S. is fortunate in that it can borrow in its own currency and that low interest rates signal that our government bonds remain in demand.

Policy proposals that have the effect of lowering corporate tax rates, or increasing the compensation of private sector executives, have the effect of increasing inequality and therefore, cannot address the equity dimensions of this specific pandemic recession.

While I defer to Congress to decide how best it would finance the policies articulated above, my colleagues at the Brookings Institution have demonstrated how a value added tax (VAT) could work to finance broad-based expenditures that are focused on establishing equity and reducing inequality.<sup>xxvii</sup>

## VI. Conclusion

Finally, I do want to end by emphasizing that we do not want to return to the financial insecurity for millions of working Americans and to the health and financial apartheid that characterized the pre-pandemic period. Instead, the U.S., one of the most entrepreneurial nations in the world, is well-positioned to learn from the pandemic and to harness the enormous human potential that lies in communities of American workers, and Brown and Black communities to drive a more equitable post-pandemic economy. This would ensure that all workers are included in the economic rebound and that the long arm of racism is amputated and in its place, adequate health care and the opportunity to transform aspirations into tangible income opportunities are made available.

Thank you.

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<sup>i</sup> It is important to note that the CBO forecast in May of 2020 was prior to the resurgence of COVID-19 to unprecedented levels in 40 states.

<sup>ii</sup> <https://data.bls.gov/cgi-bin/surveymost>

<sup>iii</sup> <https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/>

<sup>iv</sup> <https://www.brookings.edu/blog/how-we-rise/2020/07/06/how-to-build-black-wealth/>

<sup>v</sup> <https://catalog.data.gov/dataset/current-population-survey-annual-social-and-economic-supplement>

<sup>vi</sup> <https://www.brookings.edu/blog/fixgov/2020/04/09/why-are-blacks-dying-at-higher-rates-from-covid-19/>

<sup>vii</sup> <https://nypost.com/2020/04/07/anthony-fauci-compares-race-disparities-of-coronavirus-to-aids-epidemic/>

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