VIEWS OF RANKING MEMBER MIKE LEE

Like many annual publications, the *Joint Economic Report* is a chance to look back and to look forward. We will reflect on the difficult year of 2020, which blindsided a strong economy with an unprecedented pandemic. But we will also look ahead to consider ways that American life can be improved in 2021 and beyond, with special attention to the key priorities of reconnecting Americans to work and supporting families. Work and family are two pillars of American life that I have tasked Joint Economic Committee Republican staff with studying. It is important to understand what policy choices might strengthen these institutions, especially after an unprecedented, difficult year.

The year 2020 was one of the most tumultuous, stressful, and challenging in recent memory. A prosperous economy, the product of steady growth over a decade, was suddenly thrown into chaos in early March with the arrival of COVID-19. Many aspects of economic, social, and institutional life were inhibited or even temporarily abandoned. Twenty-two million Americans lost their jobs. Many more lost access to social support networks like schools and churches. Hundreds of thousands lost their lives to COVID-19 and many more lost their loved ones.

However, life began to return in the spring and summer as Americans learned more about how to keep themselves, their friends, and their families safe. The boundless creativity of individuals and businesses was on full display as they made use of technology and outdoor events to help keep up their social and professional relationships, even in the face of the challenges presented by COVID-19.

The greatest breakthroughs in returning to normal came towards the end of the year, as several efforts to create a vaccine ultimately succeeded. The American approach to solving problems through competition and choice prevailed, giving Americans a means to protect themselves and those around them. This would ultimately dramatically curb the spread of COVID-19 and set the stage for the recovery.

The first goal for the recovery is to reconnect Americans to work. Work is not merely a source of income; it also creates social connections and builds a sense of purpose and self-worth. It is therefore critical that we return to a robust labor market similar to that of early 2020, with more than eighty percent of working-age Americans employed. A strong labor market creates opportunities for those who have historically struggled to find work in weaker economies, strengthens workers' bargaining power, and increases their wages.

In returning Americans to work, we should study the policies that made the early part of 2020 so successful, but also aim to learn from the pandemic itself: jobs can be made more flexible, and impediments to working remotely or across state lines can be removed to help get people back to work and keep a wide variety of jobs available to them even after the recession is over.

The second goal for the recovery is to support families. Families were harmed disproportionately by restrictions placed on schooling and childcare during the pandemic. One of the best ways to support them is through more choice, pluralism, and flexibility in these important services. We can also make life more affordable for families in many ways, for example, reforms to the child tax credit that would offset their payroll tax burden.

The ideas contained in this report are just a start for policymakers. But much of the hardest work in this recovery will come from the

American people themselves, who will reopen and rebuild the small institutions that dot our social landscape: volunteer organizations, community groups, and places of worship. I look forward to seeing that growth in the year to come.

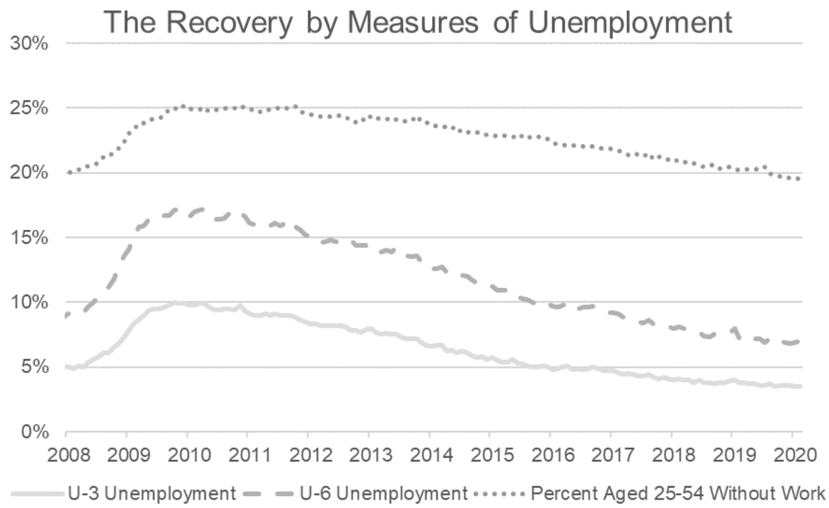
CHAPTER 1: THE YEAR IN REVIEW

The year 2020 was arguably the most eventful in U.S. economic history. The economy was strong at the beginning of the year, led by the tightest labor market in a generation. Then, in March, the rapid spread of Coronavirus Disease 2019 (COVID-19) brought economic activity to a virtual standstill, as Americans reduced their level of physical contact with each other in an effort to slow the spread. This created one of the largest shocks, and certainly the most sudden shock, that the U.S. economy had ever experienced. Over the late spring and summer, the economy began to reopen and many Americans returned to work, often under new precautionary measures. Finally, in the last months of the year, a resurgence of the virus slowed the recovery, but promising vaccine developments offered hope for a stronger return the following year.

PRE-PANDEMIC: JANUARY AND FEBRUARY

At the beginning of 2020, the labor market was at its strongest in decades. The *Economic Report of the President* (ERP, or *Report*) touts an unemployment rate of just 3.5 percent at the end of 2019 and notes that this was the first time the measure had dipped below 4 percent since 2000. As an additional measure, it offers the U-6 unemployment rate, which includes those who are employed only part-time for economic reasons; this measure stood at an all-time low of 6.7 percent in December 2019. [1] There is one more measure, unmentioned in the ERP's summary but increasingly used by labor market analysts for additional context: the share of working-age Americans who hold a job was 80.5 percent, the highest since 2001.

Figure 1-1



Source: U.S. Bureau of Labor Statistics, via FRED

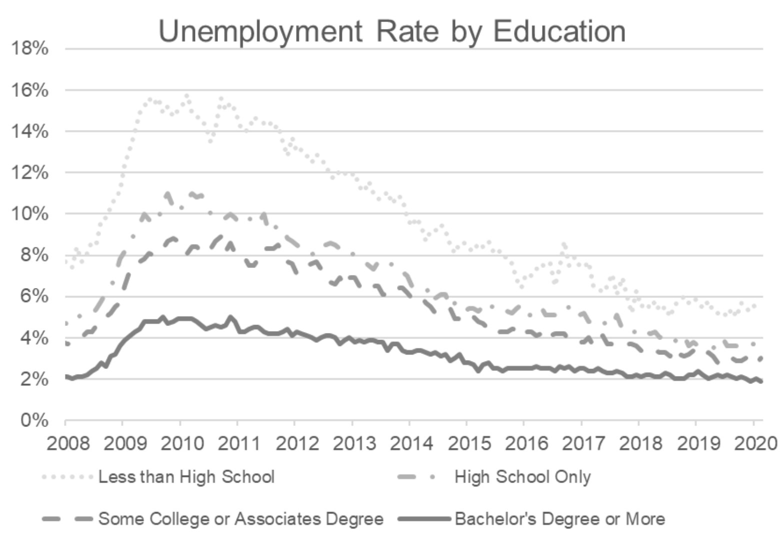
The ERP identifies this tight labor market as the primary source of the economy's strength. It further makes three main points about the labor market. First, the strength of the economy allowed income to be shared more broadly than it had been in the recent past. Second, it was better than most forecasters expected was possible. And finally, it was aided by specific policy choices. The ERP is right on all three counts.

Robust labor markets are critical to broad prosperity. A strong labor market not only extends job opportunities to workers who would not have those opportunities under a weaker economy, but also increases wages for workers in the aggregate as employers compete to attract scarce talent by raising their pay.

This is especially important to workers with lower education levels, Black workers, and Latino workers, who are more likely to suffer from cyclical employment than more-educated workers or White workers. They therefore have more employment to gain from recoveries. While it may be difficult to determine the exact reasons for this empirical fact, it is relatively simple to observe. The recovery that lasted from 2009 to the beginning of 2020, and eliminated much of the cyclical unemployment of the 2007-2009 crash, serves as an example.

At the bottom of the post-financial crisis trough, there were elevated unemployment rates for workers of all kinds. However, unemployment rates were much higher for workers with lower levels of education. The ensuing recovery improved employment for workers of all education levels, and also closed much of the gap between education levels. It removed about ten percentage points from the unemployment rate for those with less than a high school education. By contrast, it removed three percentage points from the unemployment rate for those with a bachelor's degree or more. While everyone stands to benefit from a strong economy, those with lower education benefit more in relative terms because they are harmed more by a weak economy.

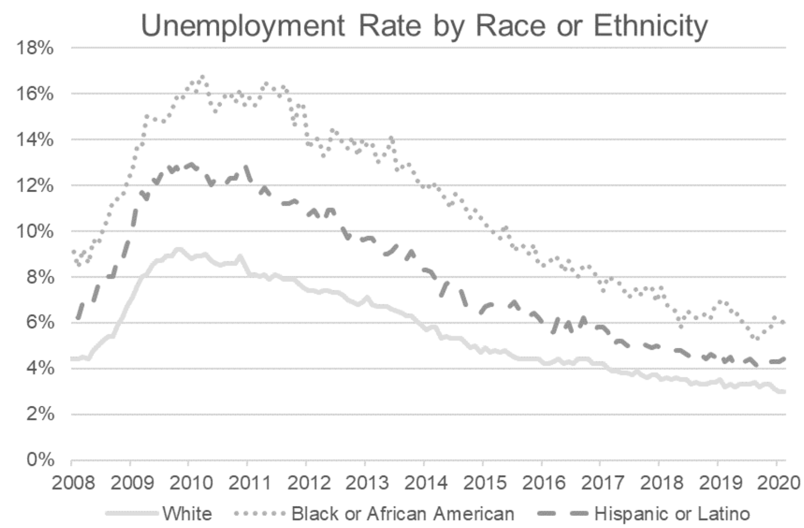
Figure 1-2



Source: U.S. Bureau of Labor Statistics, via FRED

The dynamics of cyclical employment by educational attainment are echoed in the dynamics of cyclical employment by race. Over the course of the recovery, the unemployment rates for Black and Latino workers fell by more than twelve points and more than eight points, respectively. In contrast, the unemployment rate for White workers fell by six points. All groups did better under a stronger economy, but Black and Latino workers had much more room to benefit from a stronger economy.

Figure 1-3



Source: U.S. Bureau of Labor Stastics, via FRED

The result of this stronger economy was that workers of all kinds had more bargaining power than they had previously, and their wages began to rise at a faster rate than they had previously.

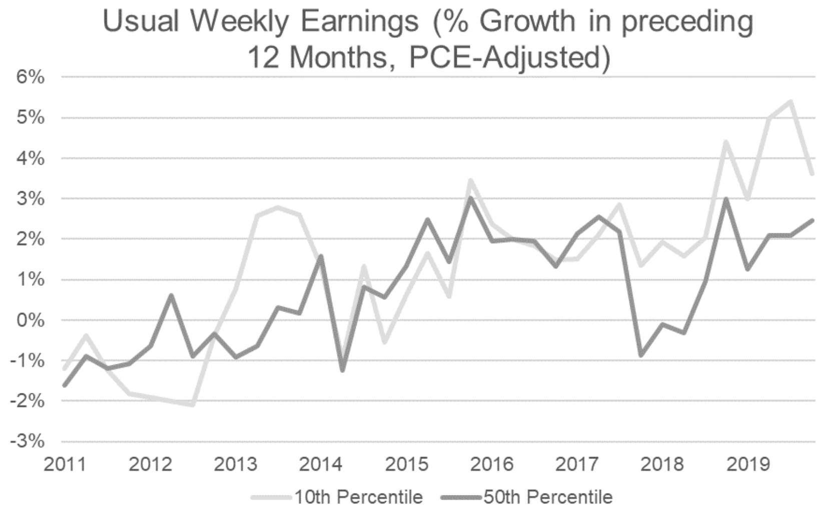
There is a general economic relationship between employment and wages; typically, the more employment, the faster the wage growth. In theory, this relationship might exist because as employment rises, firms may need to offer competitive wages to attract workers employed at other firms. In contrast, if employment is relatively weak, firms may be able to hold wages constant and simply offer jobs to previously-unemployed workers.

The relationship between employment and pay growth also holds empirically under most circumstances. It is strongest using the prime-age employment-population ratio as the measure of employment, and the employment cost index as the measure of pay.[2]

These theories concern nominal pay raises, and not necessarily real ones. However, the final few years of the 2009-2020 expansion were marked by an extended period of accelerating real wages, especially for lower-wage workers, who earned raises even faster than the median worker did. The lower portion of the wage distribution was compressed and inequality was reduced.

Graphed below is the inflation-adjusted growth in earnings throughout the recovery for two kinds of workers: those at the tenth percentile of the earnings distribution and those at the median. The wages of an earner at the tenth percentile grew consistently from 2015 onwards, and at a faster rate than those of the median worker from the middle of 2017 onwards.

Figure 1-4



Source: U.S. Census Bureau, Current Population Survey

The ERP discusses one other possible contribution to rising 10th-percentile wages: state and local minimum wage laws. Some analysts suggest these changes contributed significantly to the trend, while others noted that places without minimum wage increases also saw lower-wage workers catching up with the median.[3]

One further consideration is useful in evaluating the claim: minimum wage laws may be endogenous with respect to the overall health of the low-wage labor market. That is, jurisdictions feel more emboldened to pass minimum wage laws when the labor market for low-wage workers is strong and able to absorb those increases.

Both the trend towards expanded employment and the trend towards faster wage growth are beneficial in isolation. However, they are especially good in tandem, because their desirable qualities are multiplicative. Not only was wage growth accelerating faster than before, but also, more jobs experienced accelerated wage growth than before. The result, as the ERP notes, was a strong increase in real incomes for all households toward the end of the expansion, but especially strong increases for Black and Hispanic households: 7.9 and 7.1 percent, respectively, in 2019.[4]

Overall, as of early 2020, the strong labor market contributed to an environment of rising incomes, especially at the lower end of the income distribution.

The ERP makes a second point about the strong labor market of early 2020: it was stronger than many forecasters thought possible. This is largely a technical point, but it is an important one. Many forecasters use predictions about long-run equilibrium employment. The economy of 2019 and 2020 had far exceeded typical forecasters' predictions.

It did so on two fronts simultaneously. The first was labor force participation: more people sought jobs than forecasters expected. The second was unemployment: the people who did seek jobs were more successful in doing so than forecasters expected.

Past Congressional Budget Office (CBO) economic projections, which hew closely to professional consensus, show both of these errors clearly. Their projections from the month of January 2017, for example, predicted a decline in labor force participation through the fourth quarter of 2019, from the then-current value of 62.9 percent to 62.6 percent.[5] This was consistent with a belief that labor force participation was already at its maximum, and would only decline as the population grew older and accumulated more retirees. Instead, labor force participation increased to 63.2 percent over that time frame.[6] That is, more people looked for jobs than CBO expected.

The January 2017 projections also envisioned an unemployment rate of 4.7 percent in Q4 of 2019.[7] Instead, the unemployment rate trended down to 3.6 percent. That is, of the people who were seeking jobs, more of them were successful than CBO anticipated.

CBO was not unusual in making these mistakes, and it is not singled out here for critique. Rather, it is a non-partisan organization that admirably makes falsifiable predictions on difficult subjects. This is instructive, even when the predictions turn out to be mistaken.

Furthermore, CBO reflected accurately the consensus of the time. Even as early as 2015, respected labor economist Alan Krueger was already making the argument that labor markets were tight, and that lost labor force participation was mostly a continuation of structural, not cyclical, trends.[8] While at least one of these structural trends—aging of the population—was clear-cut, the cyclical portion was underestimated, and an improving economy brought more people into the workforce for another four years.

One of the most important reasons for this mistake was a relatively simple one. Some people who do not identify as seeking jobs nonetheless end up taking jobs as the economy improves. They may identify as students, or disabled, or retired, or as homemakers. These are perfectly legitimate reasons not to have a job, and for some people, those reasons are absolute. However, many others who place themselves in these categories do so conditionally, and only under poor economic conditions. If economists mistakenly assume that those individuals are *permanently* out of the labor force, rather than *conditionally* out of the labor force, they will underestimate the labor force's potential size.

This mistake ultimately matters because it informs policy. Policy choices like the 2017 tax reform, which cut taxes on net, are relatively better in economic environments where there is more labor market slack, and relatively less effective in environments where there is less labor market slack. Tax cuts allow more money to stay in the private sector for people to purchase goods and services. If there were no more workers to be found—if everyone was working as hard as they desired to be—then firms could not, on net, respond to that increased demand with increased hiring. They might instead have to raise prices, leading to inflation and an "overheating" of the economy.

Many critiques of the 2017 tax law, from the Dallas Federal Reserve President Robert Kaplan, to the International Monetary Fund's Christine LaGarde, focused specifically on this point.[9,10] The critiques that took this angle were mistaken; there was enough labor available in the economy to serve not only all of the baseline demand, but also the demand enabled by greater after-tax income in the private sector.

The tax law may also have expanded labor supply, as well as labor demand. The tax law generally reduced marginal tax rates on labor, increasing the after-tax wages for many individuals and incentivizing them to work more. The Joint Committee on Taxation (JCT) considered this effect, and projected that the law would increase labor supply by 0.6 percent on average while those provisions were in effect.[11] This projection took into account both the substitution effect, where people choose between work and leisure based on after-tax wages, and the income effect, where people may choose to work less if they are wealthier. The substitution effect is the larger of the two.

While changes in labor supply explain some of the outperformance of the labor market relative to 2017's expectations, it does not explain all of it. Between the greater-than-anticipated labor force participation and the lower-than-anticipated unemployment rate, the outperformance by early 2020 was too large to be explained by JCT's labor supply effects of tax reform alone.

Instead, it is likely that there was some untapped potential labor supply in 2017 that could have been brought into the economy by any increase in labor demand, even if tax reform had not occurred. However, to bring about this labor demand, policymakers would need to explicitly ignore warnings about overheating and pursue expansionary policy. This pursuit ultimately occurred, first through the fiscal channel with tax cuts in 2017, and later, through decreases in the federal funds rate in 2019.

The robust early 2020 labor market, therefore, was brought about by specific policy choices, ones that others—those who underestimated potential labor supply—might not have made. The three points the ERP makes about the labor market are ultimately part of a single chain of events: optimistic and expansionary policy, defying the consensus of a tight labor market or overheating economy, brought more workers into the fold than forecasters thought possible. This then improved market wages, especially at the low end.

The early 2020 labor market deserves considerable discussion for a simple reason; it is a blueprint for the type of economy the United States should attempt to return to—or perhaps, even surpass—after the COVID-19 pandemic is over. The post-pandemic labor force will not be a substantially different group of people than it was at the beginning of 2020, and it should support roughly the same level of employment. Early 2020 demonstrated that the economy can support jobs for at least 81 percent of Americans age 25-54 without inflationary pressures, and this is a valuable benchmark for assessing the coming recovery. Furthermore, it is at least plausible that the economy could have supported even higher levels of employment than that, had the expansion been able to continue absent COVID-19.[12]

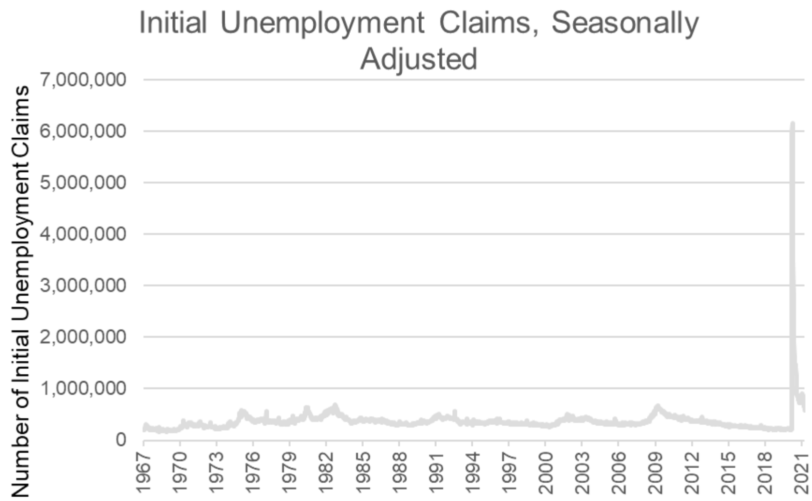
Whether the strongest possible labor market lies at early-2020 levels, or somewhat beyond, it will be important to reach those levels quickly. The previous recovery, beginning in 2009, took a decade to reach that mark. The current recovery can and should do so much faster, especially if lessons from the previous recovery are well-learned. Joint Economic Committee Social Capital Project research shows that a stable long-run path of nominal income is a desirable property of monetary policy, and conducive to strong labor markets.[13] While it was not feasible or desirable to maintain nominal gross domestic product under COVID-19 restrictions, it is desirable to return to a steady path over the medium run.

POST-PANDEMIC: MARCH THROUGH DECEMBER, ECONOMIC RESPONSE

The last ten months of 2020 were unfortunately quite different from the first two. When COVID-19 reached the United States, it struck first in Seattle and New York and soon spread to the rest of the country. Economic activity fell dramatically, primarily from reduced demand for in-person consumption that could risk exposure to the virus, or from state-imposed closures.

The size and speed of this shock was completely unprecedented in U.S. history, and perhaps best illustrated by initial unemployment claims, which reached 6 million in a single week at the end of March. Prior to the pandemic, the all-time largest number of claims was just 695,000.

Figure 1-5



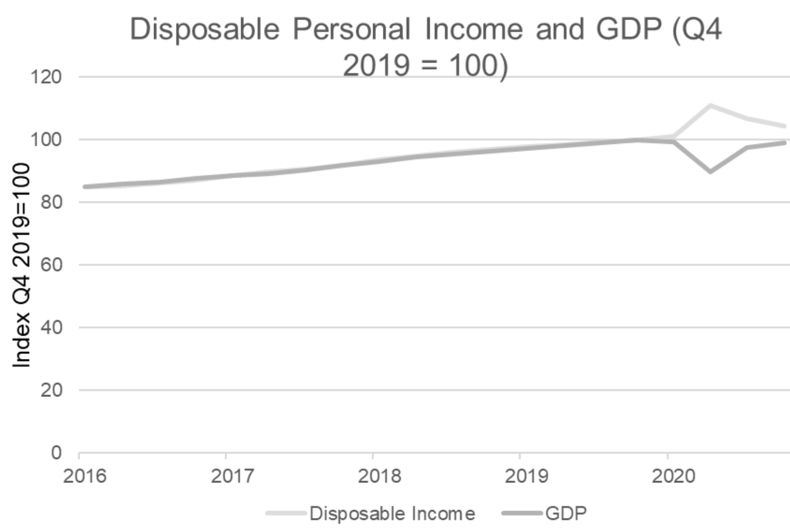
Source: U.S. Department of Labor, U.S. Employment and Training Administration, via FRED

Dealing with such an unprecedented shock took a swift recalculation of policy. The Federal Reserve internalized the new situation quickly and lowered the federal funds rate to zero by March 16th. This accurately reflected the coming shift in market dynamics: as many avenues for consumption were shut down, people began saving more. Meanwhile, the pandemic conditions would make it harder to find worthwhile investments that could earn a return. Under such conditions, it would be natural for interest rates to fall. By contrast, an unchanged interest rate would have been an unintended intervention into capital markets, keeping risk-free interest rates artificially high even as market conditions dictated low returns on saving.

Congress also responded to the shock, later, through a series of fiscal policy bills. The most significant of these was the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27th. The bill was very large and costly overall. However, it did boost private-sector incomes in aggregate through a combination of tax deferrals and transfers.

One of the largest policies in CARES was an unprecedented expansion of unemployment benefits. The initial expansion under CARES was in fact so large that 69 percent of unemployed workers were eligible for unemployment benefits that would exceed total compensation lost.[14] Exceeding 100 percent of lost compensation was undesirable for two reasons. First, it used fiscal space past even the goal of full insurance coverage; this use of fiscal space would crowd out other, more productive uses or potential uses of money. Second, it would later inhibit a return to normalcy.

Figure 1-6

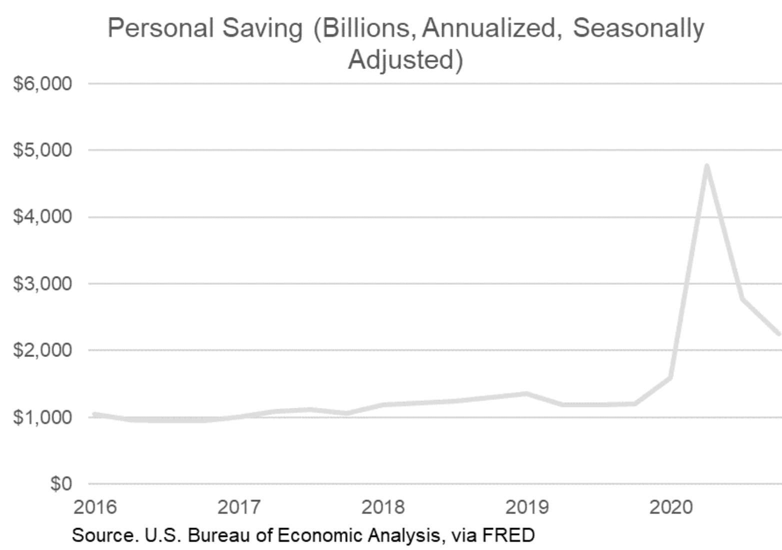


Source: U.S. Bureau of Economic Analysis, via FRED

During the final three quarters of 2020, an unusual trend took hold: GDP became decoupled from personal income. Under normal circumstances, these two measures of economic performance are very similar. Personal income is largely spent on consumption goods (and, sometimes, investment goods), adding to GDP. In turn, GDP creates personal income as people are paid for what they produce. However, under the unusual circumstances of the COVID-19 pandemic, personal income was sustained through fiscal policy even as people spent less, workers lost jobs, and businesses lost revenues. In fact, for much of 2020, personal income was above its pre-pandemic trends, in part due to the overinsurance mentioned above.

One side effect of the circumstances and policy was that personal saving rose to record highs: at peak, nearly $4.8 trillion of saving, at an annualized pace, in the second quarter of 2020. Private sector saving has a variety of benefits, and is more effective at sustaining firms and investment than overengineered public bailouts for businesses.

Figure 1-7

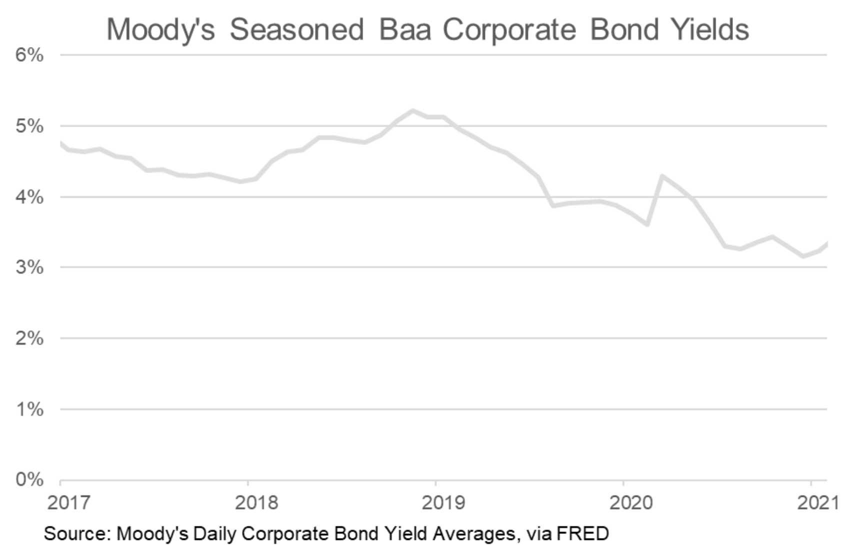


These savings provided for deep and borrower-friendly capital markets. For businesses, they helped them borrow against future cash flows, cover momentary disruptions, and even invest for the future. In housing, they lowered mortgage rates, helped people afford homes, and eventually brought new homes into production.[15]

The year 2020 included, counterintuitively, a large rally in the S&P 500 index. Bonds also rallied (or, alternatively stated, yields fell). This pattern of high valuations and low yields was generally apparent across all asset classes.

Moody's Seasoned Baa corporate bond yields, for example, declined to a 50-year low towards the end of 2020. This measurement is an average interest rate on many moderate-risk corporate bonds. In other words, it is a realistic example of the sort of rate at which a firm might be able to borrow. The rate fell because so many Americans had savings from foregone consumption, and offered more and more competitive terms to borrowers.

Figure 1-8



These savings were a private-sector lifeline to firms. Many firms took losses in the latter three quarters of the year. However, many firms expected to be profitable again in the future once the pandemic subsided. Firms with such a profile—firms that need cash injections in the near term, but can pay for that injection by promising future cash flows—are well-served by a deep capital market with many eager savers. Critically, private-sector investors have the ability to consider the longer run and extend loans only to businesses expected to be viable after the pandemic. By contrast, a government-led approach to lending may have the drawback of propping up firms that would not be viable even absent the pandemic.

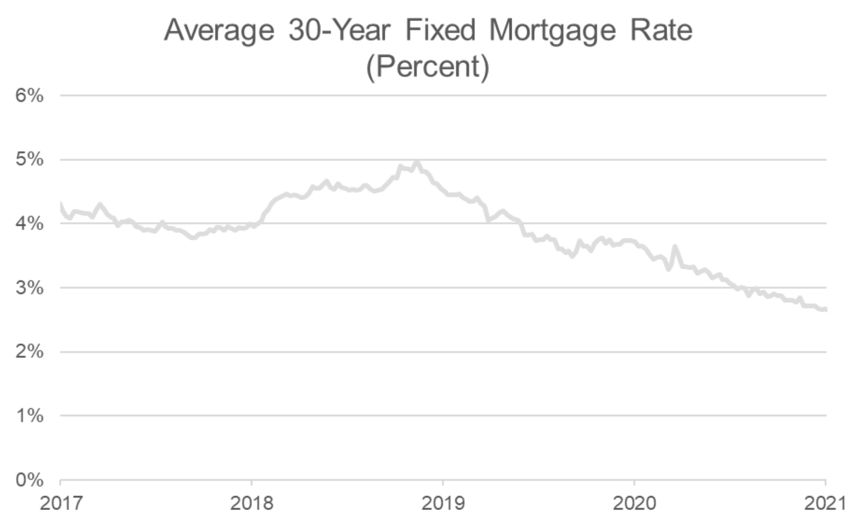
The low cost of capital for business also boosted business investment, which actually picked up in 2020. That upswing in capital investment was somewhat counterintuitive, as the pandemic surely made many capital investments less profitable. But it was actually the best plausible outcome for the situation, and it was enabled by the reduced cost of capital.

Figure 1-9

The cost of capital in a market system of creative destruction is a discipline mechanism for a small fraction of persistently inefficient enterprises, forcing them to exit and free up resources for more efficient enterprises. However, if a high cost of capital would cause many firms to fail, and many resources to go unused, then it is not efficient or market-clearing. Instead, interest rates can be allowed to fall until equilibrium is restored. Given the difficulties of the COVID-19 pandemic, it was desirable for interest rates to fall: even though capital goods spending likely produced a worse rate of return than businesses had planned pre-pandemic, it was still the best use of resources at the time.

A similar trend took hold in housing. High savings drove bond prices upward, and mortgage rates downward. The average 30-year fixed mortgage in the United States dipped below 3 percent for the first time.

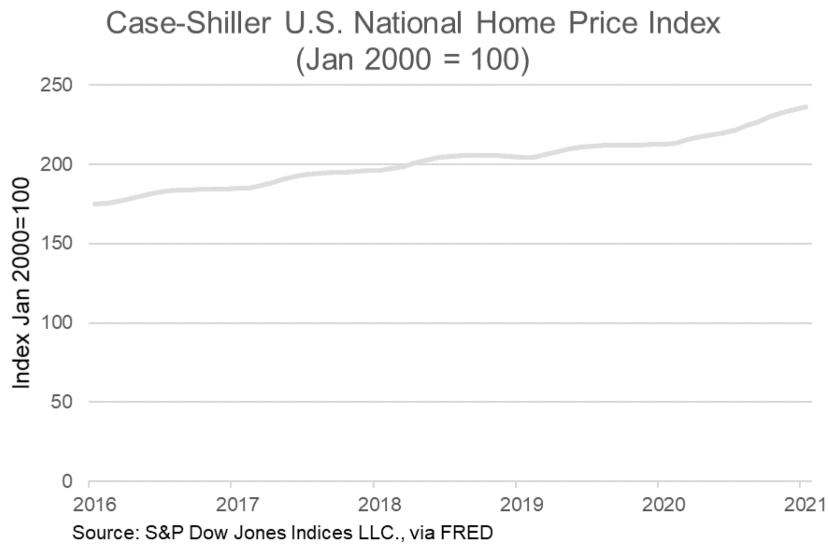
Figure 1-10



Source: Freddie Mac Primary Mortgage Market Survey, via FRED

This low mortgage rate allowed more Americans to borrow larger sums even at the same monthly payment; therefore, they were more able to pay for homes. In fact, they were able to pay the pre-pandemic market prices, or more, despite the pandemic's diminished opportunities for market income. Home prices ultimately steadily rose, at rates that somewhat exceeded pre-pandemic rates.

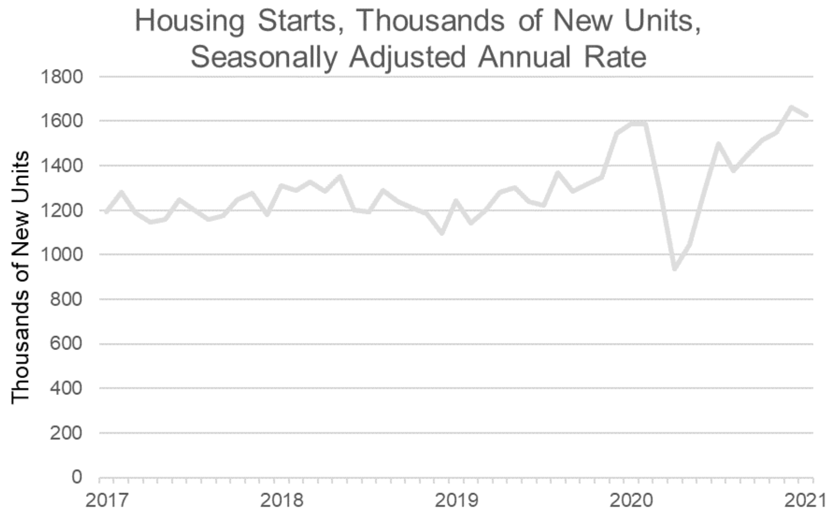
Figure 1-11



Rises in home prices are neither good nor bad in themselves. Any increase in price harms the future buyer just as much as it helps the future seller. However, they can serve as evidence of good or bad trends in the economy. When high housing prices are caused by people having higher ability to pay, that higher ability to pay is a positive development. When high housing prices are caused by limited supply, that limited supply is a negative development.

The rise in home prices during the pandemic was mostly driven by higher ability to pay. In fact, it supported new home construction throughout the pandemic, and home construction ultimately reached new highs, responding to extremely strong consumer demand. In fact, home construction may need to increase even further in order to satisfy that demand.

Figure 1-12



Source: U.S. Census Bureau, New Residential Construction, via FRED

If mortgage rates had been higher, i.e. if Americans were less able to pay for homes and housing prices fell, homebuilders would be less able to pay their workers, and fewer houses would have been constructed. Saving and low cost of capital for home buyers therefore helped save some homebuilding jobs.

All told, through robust saving and lending, the private sector was able to keep a variety of industries growing throughout the pandemic. The saving created a seemingly-counterintuitive trend in asset prices, which increased despite a troubled real economy. However, the rise in asset prices should not necessarily be understood as a boon to savers: they sacrificed in terms of future returns or yields.

Ultimately, private-sector balance sheets were healthy going into 2021: that is, after reopening, households would have enough money, in aggregate, to pay for as many goods and services as before and allow people to return to work at the jobs they had prior to the pandemic. However, the policy environment was no longer as work-friendly as that of 2020. Given a variety of new policies impeding or disincentivizing work, there were challenges ahead for 2021 as well; if spending returned and workers did not, there would be an imbalance between the nominal economy and the real economy, resulting in inflation.

MARCH THROUGH DECEMBER: CONSTRAINTS ON THE ECONOMY

When Americans judged their conditions to be sufficiently safe, and as economic restrictions were removed, they had the resources to engage in economic activity. Unfortunately, the Government's health response had a mixed record. For example, critical time was lost early on. In some areas, the health system—designed around the goals like caution and privacy—proved sluggish in a fast-changing environment. For example, a researcher in Seattle in early 2020 fortuitously had already collected nasal swabs for the purpose of studying the flu. She was blocked by regulatory agencies from repurposing those samples to screen for COVID-19 in the critical early weeks of Seattle's outbreak, even as she found a case among one of her samples.[16] Furthermore, the FDA was slow to approve privately-developed testing kits for the virus, even as the CDC's own test was flawed.[17] [18]

The Government's guidance on effective non-pharmaceutical interventions (NPIs) early in the pandemic was poor. It mischaracterized COVID-19 transmission mechanisms, which, in turn, led people and organizations to prioritize relatively ineffective avoidance behaviors over effective ones.

For example, it strongly emphasized the dangers of fomite transmission: transmission through touching of infected surfaces. However, experience with the virus quickly showed that it transmitted much more through breath than initially expected, and much less through touch than initially expected. Only in April

2021 did the CDC finally acknowledge that the risk of infection from touching a surface was low, a change that many scientists considered long-overdue. This misleading guidance led Americans to use their time and resources on surface cleaning, resources that could have been deployed on more effective NPIs like holding activities outdoors or filtering air.[19]

By contrast, the CDC failed to emphasize airborne transmission, even as evidence for it mounted. In the summer, scientists appealed to public health bodies to acknowledge airborne transmission, through open letters and newspaper op-eds.[20] In other words, scientists as a whole did not misunderstand the transmission mechanisms, but official public health guidance was behind the state of knowledge in science journals and the popular press. In fact, the CDC did not release guidance acknowledging airborne transmission until October 5th, 2020, months after hundreds of scientists had signed onto open letters begging them to do so.[21]

Top-down executive orders focused on restricting economic activity entirely were often heavy-handed and ineffective. For example, some states attempted to ban the sale of nonessential goods in large stores, even as essential goods were on sale in those same stores. This would invariably require clarifications on which goods were essential. [22] Overall such orders wasted time and did little to minimize person-to-person contact. Bottom-up ideas to reduce contagion implemented by individuals and businesses, such as removing windows on spring days to improve ventilation, were often more creative and effective.

While early stumbles were plentiful in the area of testing and NPIs, the record on vaccines was quite good. Key to U.S. success in this area was robust private healthcare innovation. The U.S. companies Pfizer, Moderna, and Johnson & Johnson were all eventually able to produce vaccines that were deployed in the United States. The

Pfizer and Moderna vaccines were a new technology, never implemented before, known as nucleoside-modified mRNA.

The development of these vaccines was dependent on the expertise and competitive nature of the private sector. While the Federal Government focused extra resources on incentivizing the productions of these particular vaccines, through a program known as Operation Warp Speed (OWS), it alone likely could not have produced multiple vaccines and treatments for the American people. OWS helped fund vaccine research and development through a combination of grants and advance purchase guarantees.

Another successful initiative collapsed the timeline for vaccine development from a typical multi-year timeline to under a year. This was achieved by allowing steps usually done in sequence to be done concurrently instead. This was an extremely important choice: the ERP estimates that even just one month saved on vaccine timelines could be worth a benefit of $155 billion.[23] While a precise estimate for such a complex question is impossible, the ERP has the right order of magnitude. The expedited processes for the COVID-19 vaccines likely saved many months, or even years, relative to a typical timeline.

While the speed of the vaccine development process was impressive overall, more could have been done. For example, a more efficient process for approval would have used the "rolling review" process employed by United Kingdom. The UK's Medicines and Healthcare products Regulatory Agency reviewed data from vaccine makers as it became available rather than waiting for a complete submission before beginning its assessment. This allowed the UK to begin its vaccination campaigns earlier than the U.S..

The first Pfizer vaccinations ultimately occurred on December 14th, and the first Moderna vaccinations followed soon after. With advanced purchases already complete and production accelerating, an effective counter to COVID-19 was at last within grasp. The year 2020 took a dark turn in March, but it ended with a growing capacity to manufacture vaccines and healthy private-sector balance sheets.

The public balance sheet, however, was damaged significantly by $4.2 trillion of added debt over the fiscal year 2020, and more in ensuing months.[24] Furthermore, the year closed with a variety of federal and state laws on the books that would ultimately impede the recovery: business closures, mandates, and unemployment benefits so large that they frequently exceeded market wages.

Overall, the year ended with a mixed record on policy, and a variety of restrictions to unwind, but also with considerable technological innovations that would help safely reopen the economy.

CHAPTER 2: POLICIES FOR RECOVERY – CONNECTING MORE PEOPLE TO WORK & SUPPORTING FAMILIES

The past year presented major economic and social challenges; however, the American economic and social recovery is well underway. Over more than two years, JEC Social Capital Project (SCP) research has explored strategies to connect people to work, encourage happy two-parent households, increase family affordability, improve investment in America's youth, and strengthen the institutions of civil society. As Americans continue to rebuild, connecting Americans to work, supporting families and children through increasing family affordability, and improving investment in youth are essential. This chapter outlines recommendations that support these important goals.

CONNECTING PEOPLE TO WORK

Improving Healthcare Response and Vaccination Rates Come First

An effective healthcare response and vaccine strategy is foremost in returning more Americans to work. Several deregulatory actions early in the pandemic laid the groundwork for a swifter healthcare response, and emergency use authorizations spurred record vaccine development. Now that several vaccines are available to reduce transmission of COVID-19, Americans can more readily return to normal economic and social activity.

The CEA argues that the unprecedented speed in vaccine development during the pandemic offers insight into "the development of new medical breakthroughs and the key role that deregulation can play in such efforts… As with COVID-19 testing and treatment, other new drugs have the potential to save lives and substantially improve well-being, which creates high opportunity costs for a long approval process."[25]

Tests were also an effective tool for fighting COVID-19 transmission, providing value not just in diagnostics but also in transmission surveillance. An accelerated regulatory approval process for tests ultimately yielded a more effective pandemic response. Many testing-related regulations, while intended to protect the public, prevented timely medical innovations that could have saved lives during the pandemic.[26] For example, the Centers for Disease Control and Prevention's (CDC) and the Food and Drug Administration's (FDA) regulations prohibiting private testing kits were an early barrier to disease control, and the lengthy approval process for new drugs continues to stand in the way of medical innovations coming to market.[27] Fortunately, the FDA approved 20 different diagnostic COVID-19 tests by the end of the first quarter in 2020, which proved critical to monitoring the severity of the pandemic.[28]

The pandemic was also an opportunity to reconsider other laws that routinely impede access to doctors and medicine. A number of regulations initially impeded a more effective pandemic response, including Federal rules preventing hospital flexibility in virus hot spots; state and Federal restrictions on telemedicine; constraints on virus testing; certificate of need rules for hospital capacity and equipment; barriers to expedited and cross-state licensing of new and retired medical professionals; state rules governing workflow and registration for health care facilities; and rules for online education.[29]

The CEA points to four critical deregulatory efforts that proved invaluable in the fight against the pandemic, including allowing telemedicine on platforms that otherwise fail to meet HIPAA regulations, relaxing Federal licensing restrictions for health care professionals, enabling Medicare telehealth across state lines, and expanding the list of services that could be performed via telehealth.[30]

Given the benefits of these actions in an emergency, the CEA postulates: "…if the absence of many regulations has improved social welfare, a natural question is why these regulations need to be reimposed when the pandemic subsides. Indeed, the CEA finds substantial benefits from extending many of the existing deregulatory efforts."[31] Though some of these regulations have been temporarily relaxed, it is worth considering their permanent removal following the crisis.[32]

Reducing Regulatory Barriers Is Important in Order to Clear the Path for Recovery

Regulations are often intended to correct perceived market failures and systemic problems, but they typically involve a *de facto* trade off: they create higher costs and barriers to production, effectively reducing access and affordability of goods and services. A cost-benefit analysis, which is a prerequisite for economically significant regulations at the Federal level, can help show whether the regulations are ultimately worth the associated costs. However, not every regulation is deemed "economically significant,"[33] and not every regulation is subject to this scrutiny.

Furthermore, the distributional effects of regulations are not always considered. The CEA argues in the 2021 ERP that regulations are indeed regressive, affecting low-income workers and the families they support. As the CEA points out, regulations that most negatively affect lower income households tend to do so by raising the prices of goods and services on which this income group spends higher shares of their income, including groceries, utilities, and health care—incidentally, goods and services "that are produced by heavily regulated sectors of the economy."[34]

The CEA estimates that gains from deregulatory actions taken by the Trump Administration in these areas “amount to 3.7 percent of the average income of the poorest fifth of households, compared with only 0.8 percent of the richest fifth, suggesting that they benefited the poorest households four times as much as the richest ones.”[35] Counted among these improvements for households, the CEA points to 20 deregulatory actions that will continue to deliver benefits for Americans both as consumers and producers, with a select number listed in Table 6-1 including removal of the Affordable Care Act’s individual mandate and restoring internet freedom.[36] Additionally, prior to the pandemic, Executive Order 13771, “Reducing Regulation and Controlling Regulatory Costs,” introduced a regulatory budget with a regulations cap and eliminated an estimated $50.9 billion in regulatory costs over three years, preemptively increasing the American economy’s dynamism and resilience.[37] Altogether, these actions laid the groundwork for a stronger economic rebound in the aftermath of the pandemic.

Deregulatory initiatives both prior to and during the pandemic helped reduce costs not only for consumers but also for employers. Regulatory reform is especially helpful for small businesses and entrepreneurs that would like to grow, expand, and hire additional workers but face high regulatory costs that they are ill equipped to absorb and that prevent them from doing so.

The benefits of deregulatory initiatives could also be enjoyed after the pandemic. As the CEA observes, “regulatory reform may help position the United States for a robust economic recovery and be a powerful tool to help lift up middle- and low-income Americans as the economy recovers from the COVID-19 pandemic.”[38] Considering the rising importance of telework, workplace flexibility, and home-based businesses, there are several key areas in which deregulatory actions, at all levels of government, could help workers, including addressing occupational licensing regimes and curbing the overuse of non-compete clauses, as was mentioned in last year's *Response*.

Telework and Workplace Flexibility

COVID-19 rapidly changed the way Americans work. Seemingly overnight, the fraction of employees working from home grew from one-fifth of the workforce to over 50 percent,[39] and estimates suggest that these workers may now account for more than two-thirds of U.S. economic activity.[40] This change was initially a shock, requiring a rapid adjustment for which many employers and workers were ill-prepared. As the year progressed, however, the successes of telework highlighted the value of flexibility in the workplace.

Before the pandemic, remote work was gradually rising. According to a November 2019 survey, employers were expecting to increase the share of fully or partly remote workers from 33 percent to 46 percent over the next five years, a 45 percent increase.[41] After COVID-19, businesses now anticipate 58 percent of their workers will be remote in some form, representing a 77 percent increase.[42] In another survey, U.S. businesses indicate that they expect the share of total working days from home to triple after the pandemic is over compared to 2019.[43] Similarly, researchers from the National Bureau of Economic Research estimate that "20 percent of full work days will be supplied from home after the pandemic ends, compared with just 5 percent before."[44]

Initially, some workers reported that telework decreased their efficiency due to insufficient access to distraction-free workspaces, poor internet connectivity, and separation from their colleagues.[45] Yet, subsequent surveys reveal that teleworking may have actually increased productivity. For instance, one third of managers surveyed in April 2020 reported that their workers' productivity increased as a result of telework, and 91 percent felt that the shift to remote work had gone as well or better than expected.[46]

Pre-pandemic research also provides evidence that telework and geographic flexibility can increase worker productivity. A 2012 study of workers in the U.S. Patent and Trademark Office found that productivity increased for employees who started working from home. Productivity increases were even greater among workers who took advantage of the "work from anywhere" program, which allowed them to live more than 50 miles away from the office.[47] Studies of German, Portuguese, and Chinese firms have all observed similar findings.[48]

The rise of telework this past year has also revealed benefits beyond productivity. For instance, Gallup reported that the percent of Americans highly engaged in their work and committed to their job reached its highest level on record in May of 38 percent.[49] Additional surveys have found that employees benefit from the time saved not commuting and the money saved on work-related expenses, while employers benefit from the option to downsize or eliminate their physical offices.[50] Moving forward, 76 percent of workers want to work from home at least one day per week, compared to just 31 percent before the pandemic began – suggesting that COVID-19's effect on work has inspired a long-term desire for flexibility among workers.

After the pandemic ends, employers should continue enabling and expanding workplace flexibility options, recognizing the potential benefits for employees' work-life balances, job satisfaction, and productivity.

Home-Based Business Regulation

In addition to the increasing share of workers that worked from home at least some of the time pre-pandemic, home-based businesses comprise half of all firms, a share that has remained remarkably constant over the years preceding the pandemic and kept pace with the rising number of businesses.[51]

As mentioned in last year's *Response*, the pandemic magnified the negative effects of local zoning restrictions on home-based businesses.[52] Many of these regulations were written prior to the digital age—which makes remote work possible for a broad number of occupations—creating unnecessary barriers to entrepreneurship, particularly for many business owners who for various reasons could not otherwise participate in the traditional labor market.[53]

With the dual headwinds of job loss and stay-at-home orders brought on by the pandemic, many more workers have seized the opportunity to start a home-based business as a way to make ends meet. Applications for new businesses filed by likely employers, including many home-based businesses, rebounded dramatically from June into the third quarter of 2020 after a particularly muted first half of the year due to the pandemic.[54]

Amid the growth in new businesses, there is pressing need for regulatory relief. Anecdotal evidence of unnecessary home-based business regulation abounds. City and local ordinances are used to shut down otherwise legal home-based operations with "no impact" on their neighborhood's character. In essence, these examples fail to meet the typical criteria for enforcing home-based business regulations—the generation of noise, unwanted traffic, noxious odors or unsightly conditions.[55]

The Arizona *Home-Based Business Fairness Act*, mentioned in last year's *Response*, would have permitted "no impact" home-based businesses that otherwise would be prohibited under existing regulations. Despite its failure to pass in 2018, several states and cities have since introduced similar bills and reforms to address regulatory harm on home-based businesses.[56] As working from home increases in prevalence—a trend that was already rising prior to the pandemic—it is in the best interest of states and their localities to review and reform their regulatory frameworks to enable more home-based businesses to thrive.

Occupational Licensing Reform

Occupational licensing continues to be one of the largest barriers to work and is particularly burdensome on military veterans, dislocated workers, immigrants, and those with a criminal record.[57] As the CEA notes, "efforts to combat the inefficiencies of individual state licensing have been ongoing for decades."[58] The 2020 ERP and subsequent *Response* also highlighted state level occupational licensing regimes as a significant barrier to work, and despite the temporary relaxation of these rules for healthcare workers delivering care across state lines during the pandemic and previous emergencies, more permanent reforms must take place. Some states are leading the way, like Arizona, which in 2019 implemented a universal license recognition for those relocating to Arizona. At least three other states have since followed suit, and several more are in the process of doing so.[59]

Though occupational licensing largely occurs at the state level, several federal-level reforms can serve as a model for improving state licensure. The CEA highlights several Federal actions taken to reduce licensing barriers, including by the Department of Veterans Affairs, which enabled its licensed physicians to practice in any state. Awarding Federal grants for state cooperation has led to several interstate licensing compacts, particularly for health care workers. The benefits of deregulatory actions and mutual license recognition extend to consumers as well. The CEA argues that cost savings from “expanding occupational licensing deregulation for nurse practitioners nationwide could result in $62 billion in cost savings annually.”[60]

Furthermore, the Administration took important and appropriate measures to suspend a variety of unnecessary Federal regulations that pre-dated the crisis and served as barriers to an effective response. As the CEA mentioned in the ERP, these efforts included decisions by the Department of Health and Human Services to allow doctors to practice medicine across state lines as well as Administration decisions to allow doctors to provide telehealth services for Medicare patients.[61] Recognition of these critical authorizations dates back to at least the Obama Administration, which highlighted in its occupational licensing framework a 2009 report from the Department of Health and Human Services recommending the expansion of “telehealth networks and reducing legal barriers, based on the effectiveness of telehealth in responding to public health emergencies and disasters.”[62] Finally, two of Senator Lee’s bills seek to reform occupational licensing regimes. First, the *Restoring Board Immunity (RBI) Act* would enable states to establish a process either for active supervision of licensing boards or meaningful judicial review of board actions to reduce over-reliance on licensing and clarify the necessary steps to establish anti-trust immunity to state boards. Second, the *Military Spouse Licensing Relief Act* would make professional licenses of members of the uniformed services and their spouses portable.[63]

Apart from Federal reforms, states can undertake additional actions. For instance, states can continue to expand reciprocity for professions likely to remain regulated and licensed, such as those in health care. For a number of other occupations where licensure is not universal across states, reciprocity may not be as helpful, as not everyone has a license. In many of these cases licenses may not be necessary at all. To that end, state-level review of the necessity of licensure for each regulated occupation will help determine whether the current licensing regime meets the goal of consumer safety or primarily insulates current license holders from competition.

Non-Compete Reform

Non-compete agreements prevent employees from subsequently working at firms in competition with their current employer. However, many workers are asked to sign a non-compete only after accepting a job offer; this condition often goes unstated until the worker has invested significant time and energy into securing the job. However, non-compete clauses can benefit workers by creating an environment where costly non-job specific employee training, such as general career skill building, can be internalized through the employment contract.[64] Where non-compete clauses are used to protect trade-secrets they can be an important protection for innovation and research. Policymakers at all levels should study the effects of non-compete agreements more closely to determine their relative costs and benefits and potential reforms.

Potential reforms could improve transparency regarding the existence of a non-compete before job acceptance to help to reduce misuse of these agreements. Alternatively, similar to Oregon and New Hampshire, non-competes could be voided if they are not included in "the original terms of employment."[65] Additionally, research from the Economic Innovation Group (EIG) focuses on several state reforms currently in use or under consideration, including: requiring transparency regarding the existence of a non-compete well in advance of a potential worker accepting a job;

"garden leave" provisions that compensate a worker for abiding by the non-compete; refusing re-write and subsequent enforcement of vague non-competes; bans on non-competes for low wage workers and specific high-skill jobs; and outright non-compete and no-poach bans.[66]

In a separate report, EIG highlights state reforms in 2019 and 2020 that narrowed the application of non-competes to certain jobs and imposed transparency mandates, aimed at improving mobility among the one-fifth of American workers affected by non-competes.[67] Furthermore, the Congressional Budget Office suggests restricting the use of non-compete agreements to reduce barriers to entry for new firms and increase entrepreneurship.[68]

Removing Additional Barriers

While changes to occupational licensing and non-compete agreements are mostly state-initiated reforms, the Federal Government can also take proactive steps to enable a faster economic recovery as the pandemic wanes. For example, Congress could remove restrictive employment regulations that make it harder for individuals to obtain employment and harder for businesses to access talent. These reforms include implementing the *Working Families Flexibility Act* to allow private employers to extend the option of overtime pay or paid time off to their employees who work overtime.[69] As the CEA notes in the ERP: "A persistent focus on regulatory reform will play a critical role in the U.S. economy's return to the levels of economic prosperity it achieved before the COVID-19 pandemic."[70]

Preparing a Skilled Workforce Remains an Imperative

In addition to regulatory reform, making skill acquisition easier can help recently unemployed workers connect with new employers and enable workers with relatively fewer skills to improve their job prospects and potentially increase their standards of living. In particular, improvements to workforce training programs and higher education reforms can help workers acquire new skills.

As the ERP states, “Federal program requirements could also encourage, rather than limit, partnerships between higher education providers and employers. Employers are most aware of the skills needed to succeed in the workplace.”[71] Federal policymakers should streamline the administration of workforce training programs without sacrificing program diversity and improve collaboration between public and private participants. To that end, the Department of Labor developed industry-recognized apprenticeship programs (IRAPs) that expand employment opportunities for participants by granting industry-recognized credentials in a variety of programs including paid work, work-based learning, and mentorship programs. Standard Recognition Entities, which include trade associations, employer groups, educational institutions, state and local governments, non-profit organizations, and labor unions, develop the curricula for IRAPs.[72] Though the Biden Administration ended IRAPs in February 2021, they serve as an example of a flexible approach to accreditation and administration that could serve as a model and improve community college and other educational partner integration.[73]

There is even room for improvement in the Federal workforce development programs already in existence. Since its 1937 inception, the industry concentration of federally registered apprenticeships has hardly changed, remaining largely in goods-producing industries even though the service sectors comprise the vast majority of current employment and projected job growth.[74]

When it comes to higher education, the CEA notes that the system as a whole is out of sync with the skills acquisition necessary to fill today's skilled jobs: "The Federal Government could also improve outcomes for students by better aligning education with the needs of today's workforce. The higher education system has been slow to adapt to the changing nature of work. In recent years, millions of jobs have remained unfilled, in part due to a lack of Americans with appropriate skills."[75] The ERP details that traditional post-secondary institutions do not typically bear financial risk when it comes to the outcomes of post-graduates, and argues for reforms that "could better hold institutions accountable for the economic return that they provide to students, as well as assist students and families to make more informed decisions regarding their educational options."[76] Indeed, schools seem to bear very little or no risk: Schools accept students, students pay however they decide to, students graduate or do not, and universities move on relatively unaffected by any specific student outcome. Such a set-up does not provide schools with the right incentives to accept promising students, guide them towards graduation, and give them the best education possible to prepare them to succeed in the job market. Policy can have a role in reducing some of the inefficiencies that currently exist in higher education as outlined below. However, such a policy need not overreach its potential for impact by micromanaging universities and students or increasing subsidies, which could reduce accessibility for the very people that stand to gain the most from higher education.

Federal policy could also address the way it funds higher education and related programs. In particular, the prospect of assuming student debt is not financially viable for many Americans seeking occupational training—particularly in the case of a mid- or late-stage career change. One suggestion the ERP offers involves one of many reforms to the Pell Grants program:

> *...to include high-quality, short-term programs that provide students with a credential, certification, or license in a high-demand field and that demonstrate strong employment and earnings outcomes. Pell Grants are typically used to support students in traditional two- or four-year degree programs. Though some certificate programs are eligible for Pell Grants, programs must cover at least 15 weeks of instruction. Expanding support to shorter-term programs designed to teach skills specific to well-paying jobs could better meet the needs of students with near-term employment goals.*[77]

Additionally, income-share agreements (ISA) offer a higher education funding tool for students by enabling them to pay some portion of their income post-graduation for a specific period.[78] Both online academies with massive open online courses and major universities such as Purdue and Clarkson have adopted ISA models.[79] By making revenue contingent on student outcomes, ISAs improve educational institutions' financial incentives while mitigating risk of default for students.[80] To improve the model's credibility, appeal and sustainability, Federal policymakers should clarify the legality and enforceability of ISAs to reduce investor uncertainty.[81]

Federal accreditation reform could support workforce development and re-skilling efforts as well. Despite the inability to assess the effectiveness of unaccredited programs, nearly a third of the American working class has a license or certificate from a non-degree or work-experience program.[82] Furthermore, unaccredited programs cannot receive Federal aid.[83] Federal policymakers should consider new models of Federal funding that pair financial aid with quality-assurance measures, as some states have done with their programs, including Virginia's FastForward program.[84] Other reforms would improve the accreditation system, as mentioned in last year's *Response*, such as Senator Lee's *Higher Education Reform Opportunity (HERO) Act*, which—in addition to streamlining Federal aid, realigning education providers' incentives, and providing greater transparency into student success—enables states to accredit *any* post-secondary institution.[85]

As the ERP states:

> *Improving the four-year degree to generate greater skill increases for students, as well as providing alternative paths for human capital accumulation, can avoid a one-size-fits-all approach that leaves individuals and groups behind. Apprenticeships, training programs, and four-year degrees are all paths to a more productive workforce and a higher quality of life for millions of Americans.*[86]

The labor market challenges posed by a rapidly evolving economy, particularly in light of the dramatic changes brought on by the pandemic, present an opportunity to further invest in human capital. Recent innovations within workforce development shows signs of promise, and Federal policy reforms can make room for even greater innovations that equip workers with the skills in high demand from area employers.

SUPPORTING FAMILIES

In addition to reconnecting workers to the labor force, post-pandemic policy should also prioritize increasing family affordability and improving investments in youth, which will in turn result in a better equipped future workforce. Policy reforms can aid families facing hardship resulting from unemployment and children facing learning losses from a year of online schooling, and examples of relevant reforms are outlined below.

Improving Family Affordability through the Tax Code

The COVID-19 pandemic hit many American families hard and created ripple effects across the economy. Unemployment rates skyrocketed in the spring of 2020, businesses were forced to close (some permanently), and school closings made it difficult for parents to work, which disproportionately affected mothers who—at least temporarily—dropped out of the labor force to care for their children.[87] The Social Capital Project (SCP), a multi-year research effort of JEC Republican staff led by Senator Lee, has studied factors that affect family affordability. While many of these issues pre-date the pandemic, they are amplified by the detrimental effects of COVID-19 on the economy. Thus, addressing challenges to family affordability is paramount to helping American families through these difficult times.

Inequities in the tax code that unfairly reduce family income are an example of one important issue that affects family affordability. Chapter 11 of the *Report* highlights two ways in which the tax code penalizes certain types of families. First, the second-earner penalty imposes higher marginal tax rates on secondary earners who file jointly. In other words, joint filing combines the incomes of a dual-earner household and effectively penalizes the second earner for the earnings of the primary earner by taxing the secondary earnings at a higher marginal tax rate. This penalty is exacerbated for people with children. Thus, there is a bias in the tax code toward single-earner families, which may discourage dual-earner households and depress household earnings, particularly for households with married adults who may have children or want to have children.

Second, Chapter 11 of the *Report* points out that under the current tax code, low-wage workers face some of the highest marginal tax rates, after taking into account both explicit taxation and the implicit taxation of means testing.[88] In other words, because of the way in which income taxes at the Federal and State level are levied, and the structure of benefits programs, a low-income household earning an additional $1 may lose more than that in income lost to taxes and reduced benefits. The *Report* illustrates this using a hypothetical case of a mother with two children who loses benefits as her income rises so that when she earns $44,000 annually, she is as well off in terms of net resources as she was when she earned $11,000 annually. This creates a cycle of poverty by creating disincentives to earnings growth, and greatly reduces household income for families.

The SCP has explored other ways in which the tax code favors some households while hurting others.[89] For example, embedded in the current tax code is a stay-at-home parent penalty. The tax code subsidizes the costs of having children in formal childcare arrangements because the Child and Dependent Care Tax Credit (CDCTC)—as well as childcare flexible spending accounts–offsets the costs for families who use formal childcare. Thus, families that don't require formal childcare arrangements (e.g., families with a stay-at-home parent) do not accrue any of these benefits and are put at a disadvantage. This penalty is problematic for at least two reasons: First, the stay-at-home parent penalty signals to American families that some family arrangements are better than others and more deserving of tax benefits. Second, the penalty unnecessarily reduces household income for some families with children and hurts family affordability. This is especially unfair in the COVID-19 era where families may have a parent at home and may not be using formal childcare arrangements.

In addition, Senator Lee has drawn attention to the parent penalty implicit in the current tax code.[90] Two families, one with children and one without, that have the same income will pay the same amount in payroll taxes over 18 years. However, the family that has children will also spend hundreds of thousands of dollars to raise those children who will later pay into Social Security and Medicare for their parents and for seniors who did not have any children of their own. Thus, the family with children contributes more than the family without children. The tax code may want to recognize this imbalance and further offset some of the costs of sustaining our entitlement system.[91]

Senators Lee and Rubio have proposed ways to mitigate the stay-at-home parent and parent penalties. Their work succeeded in expanding the CTC in the 2017 *Tax Cuts and Jobs Act* (TCJA), benefiting millions of American families.[92] The Senators have continued to call for a further expansion of the Child Tax Credit (CTC) and increasing its refundability, in addition to replacing the CDCTC with a Young Child Enhancement that eliminates part of the stay-at-home parent penalty and expands access of the credit to more families.[93]

Their bill would accomplish two things. First, it would fix the refundability of the CTC so that parents could receive the full credit up to their total tax liability – income and payroll. This would put more money in the hands of families with children, offsetting some of the financial burden of raising children, and mitigating the imbalance that families with children face. Second, it would eliminate the stay-at-home parent penalty by repurposing the CDCTC and creating an expanded CTC of $3,500 with a $1,000 enhancement for families with children aged 5 and under (i.e., a total Young Child Credit of $4,500).[94]

Replacing the CDCTC with an expanded CTC would allow more families to keep more of their hard-earned money and use it for child rearing expenses other than formal childcare, creating a win-win for dual-earner and single-earner families alike.

In addition to the penalties faced by some types of households that are embedded in the tax code, research by the JEC Republicans suggests that the tax code may also drive up the cost of living in metropolitan areas, making it harder for families to afford living accommodations.[95] In other words, rising housing prices may be due in part to the deductibility of residential property taxes and mortgage interest. This creates a problem for family affordability because housing is one of the most expensive inputs into starting a family. The JEC Republicans discussed this issue at length in the 2020 *Joint Economic Report (Response)*.[96] While the TCJA included limits on itemized deductions for mortgage interest and state and local taxes, these should be extended or made permanent in exchange for more broad-based tax relief.

Increasing Family Flexibility

In addition to improving family affordability, measures that provide working parents with greater flexibility would be beneficial for families. As JEC Republicans explained in the 2020 *Joint Economic Report*, reasonable policies that mitigate difficulties in work-life balance may have positive effects on family formation and family affordability.[97] Furthermore, the difficulties in work-life balance brought on by the pandemic, as described in Chapter 11 of the *Report*, could be mitigated by greater flexibility at work.[98]

Senator Lee has introduced two pieces of legislation that could ease difficulties in work-life balance which are more important than ever given the effects of COVID-19 on working parents.[99] As written in the JEC's 2020 *Joint Economic Report* and briefly mentioned earlier in the chapter:

> *The* Working Families Flexibility Act *proposes reforming federal labor laws that restrict the use of comp time in the private sector. This legislation would help workers improve work-life balance by allowing private-sector employers to offer all employees working overtime the choice between monetary compensation or time off. Policies like these that make reasonable but helpful changes to reduce work-life challenges may be instrumental in the longer term in enabling parents to be successful both at work and at home. Such policies can reduce the long-term costs of childbearing and child-rearing, ease family affordability, and may enable parents to reach their fertility goals.*[100]

In addition, last year's *Joint Economic Report* also highlighted Senator Lee's *Child Rearing and Development Leave Empowerment (CRADLE) Act*, which would allow new parents to borrow up to three months of paid parental leave, alleviating the upfront costs of having children and enabling parents to bond with their babies, while delaying retirement for up to six months.[101]

Increasing Childcare Access and Affordability

Access to childcare was severely disrupted over the last year as childcare centers shut down to stop the spread of COVID-19. According to a survey from the Bipartisan Policy Center (BPC), 60 percent of childcare programs were fully closed in April and 46 percent of parents were concerned that their childcare providers would not reopen.[102] By December, childcare availability improved moderately, but 42 percent of parents with formal care arrangements still did not have access to their childcare providers.[103]

Additionally, some childcare providers were forced to increase their prices to cover the cost of new safety protocols, worsening the pre-existing trend of rising childcare costs.[104] These barriers to childcare access and affordability pose major challenges for working parents as well as parents seeking to enter the labor force.

Disruptions to childcare availability required some parents, especially mothers, to work less or stop working entirely in order to care for their children. One study found that the drop in employment during 2020 disproportionately affected women, whose falling labor force participation was driven in part by increased childcare needs.[105] Additionally, the Bipartisan Policy Center's April survey found that 21 percent of parents had to reduce their work hours and 11 percent needed to take unpaid leave to care for their children.[106]

Even after employment returns to pre-pandemic levels, many parents worry that they will not be able to afford childcare.[107] The uncertainty about post-COVID affordability is exacerbated by rising childcare prices prior to the pandemic. While there is disagreement about the magnitude, most observers agree that childcare costs have been increasing for decades.[108]

Childcare unaffordability is a major burden for many families. According to Child Care Aware of America's 2019 report, "in all regions in the United States, average child care prices for an infant in a child care center exceed the average amount that families spend on food and transportation combined."[109] For families with two children, annual childcare prices are higher than median rent payments in every state, and higher than mortgage payments in 40 states and DC.[110]

For parents that cannot afford formal childcare, their only choice may be to stop working and provide care themselves. In chapter 11 of the ERP, CEA presents research showing that "as of 2016, the high cost of childcare was preventing up to 3.8 million parents from joining the labor force."[111]

One likely driver of childcare unaffordability is the growing number of regulations affecting childcare providers. The 2020 *Joint Economic Report* cited several of these regulations, including staff-to-child ratios and education requirements for caregivers, which impose burdensome compliance costs and drive up the cost of care.[112]

For instance, Diana Thomas and Devon Gorry of the Mercatus Center estimate that increasing child-staff ratio requirements by one infant would reduce the annual cost of childcare by $850 to $2,890 per child.[113] Furthermore, they estimate that education requirements for caregivers increase the cost of care by up to 46 percent.[114] Similarly, after a comprehensive review, researchers at the American Institute for Economic Research conclude "the preponderance of the statistical evidence indicates a link between tougher government regulations and higher prices faced by families for child care."[115]

Additional research suggests that burdensome regulations also decrease the availability of childcare. One study estimates that "tightening the staff-to-child ratios by one child reduces the number of childcare centers in an average area by 10 percent with no apparent impact on quality."[116] Loosening these requirements, in turn, would increase childcare availability, enabling more parents to join the labor force.

For example, Senator Lee's *Childcare Worker Opportunity Act* would reverse Washington, D.C.'s new regulation that requires childcare workers to possess two to four years of college education.[117] Research finds that these mandates disproportionately harm low-income childcare employees who cannot afford college tuition.[118] Furthermore, they also increase costs for childcare providers, leading to price increases and making childcare unaffordable for many low- and middle-income families in Washington, D.C.[119]

Improving the Quality of K-12 Education

For any family with children, K-12 schooling is a vital part of everyday life. Chapter 7 of the *Report* describes the value of nontraditional educational models, explaining that they lead to higher quality education by increasing competition between schools. Research surveyed in the ERP shows that, by encouraging creativity and innovation in schooling, school choice programs can improve parental satisfaction, increase students' educational achievement, and increase long run educational attainment.

As the ERP explains:

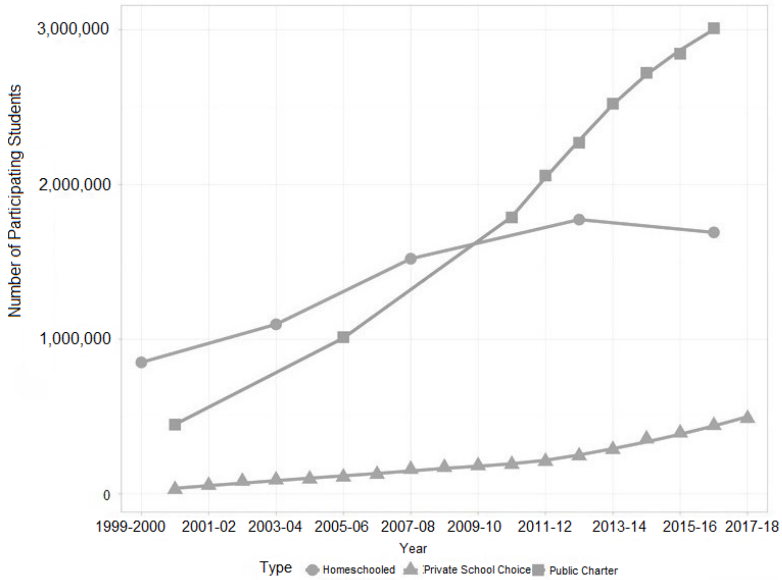
> *For students participating in these programs, achievement results as measured by test scores are mixed, although several studies find large positive results for minority and low-income students. We explain that some positive outcomes of school choice emerge later in a child's development through higher educational attainment, and studies of these longer-term outcomes are generally more positive.*[120]

The ERP also presents evidence that school choice programs benefit society. For instance, voucher programs and charter schools have been linked to lower rates of criminal activity, incarcerations, and teenage pregnancies.[121] The *Report* also demonstrates that school choice programs disproportionately serve low-income and minority communities, reducing the education opportunity gap.[122]

According to SCP research, the vast majority of students (over 90 percent) attend public school, yet confidence in public education has been steadily falling—from 62 percent of parents expressing confidence in 1975 to under 30 percent in 2019. At the same time, enrollment in private school choice programs is climbing. SCP found that "from 2000 to 2018, the number of students participating in a private school choice program increased 16 times over, while participation in public charter programs increased nearly seven-fold."[123] Similarly, the number of children in homeschooling has doubled over the past 20 years.[124] These trends are visualized in Figure 2-1, below.

Figure 2-1

Students Participating in Choice Programs or Homeschooling, 1999-2018



Source: National Center for Education Statistics; American Federation for Children

The SCP has conducted extensive research into the benefits of educational pluralism, a concept closely related to school choice. Educational pluralism encourages a diversity of school models and learning cultures, allowing parents autonomy over their children's schooling and the values and traditions children are exposed to. In "Multiple Choice: Increasing Pluralism in the American Education System," the SCP finds that alternative schooling like charter schools can lead to better educational outcomes, with the best results occurring in communities that emphasize school accountability.[125] They also find that community-based schooling, like Catholic schools, create societal benefits by emphasizing strong relationships between parents, teachers, and students, and embedding behavioral norms into the institution of schools.[126]

Over the past year, COVID-19 has exposed the drawbacks of a traditional one-size-fits-all education system and highlighted families' demands for innovative educational alternatives.[127] SCP research demonstrates that widespread school closures in 2020 harmed children developmentally, academically, and psychologically—challenges that could have been mitigated with greater diversity in educational opportunities.[128]

Extensive evidence exists showing that children suffer from school closures. The largest developmental effects are concentrated among the youngest students: those in the midst of learning foundational skills like reading and writing and beginning to develop social skills. Older students also suffered from the transition to remote learning, with teachers reporting that students returned to the fall semester significantly less prepared than in years prior.

These learning losses will likely translate to economic losses later in life, reducing students' future earnings. Low-income students will be disproportionately affected, as research shows they face greater setbacks from remote learning. On a macroeconomic scale, the U.S. economy as a whole will suffer from the future labor force's reduced skill level. One estimate suggests that, by 2040, the 2020 school closures will shrink annual GDP by as much as $271 billion per year.[129]

Parents' new responsibilities connected to their children's schooling, especially for parents with young children, have additional negative ramifications for worker productivity. Surveys suggest that over 70 percent of parents struggle with simultaneously working and schooling their children. The potential effect on overall productivity is significant, as nearly one third of U.S. workers have school-age children.[130]

In response, many parents embraced alternative models of education. For instance, reports suggest that parents turned to private schools in search of in-person instruction while public schools continued to practice remote learning.[131] Furthermore, roughly 40 percent of parents report that COVID-19 made them more likely to consider homeschooling, and school closures spurred new “learning pods” where students received group instruction from parents or tutors.

The American experience in 2020, combined with the already growing popularity of public and private choice programs before the pandemic, suggest that policymakers should aid families seeking education outside of the traditional public school system. As argued by the SCP, “a more individualist approach would have education funding follow the child—parents would receive the value of their children’s public education dollars to use at the school of their choice.”[132]

One example discussed in the ERP is the Empowerment Scholarship Accounts program in Arizona, which allows students to receive 90 to 100 percent of state per-pupil education funding, depending on their families’ income levels.[133] These funds can be used for a variety of education-related expenses, including private school tuition, tutoring, and expenses related to homeschooling—making it a truly flexible program that enables families to pursue what is best for them and their children.

The TCJA also expanded the scope of 529 education savings plans, which now allow families to save money in tax advantaged accounts for K-12 education—including private and religious schools—in addition to college. The *Children Have Opportunities in Classrooms Everywhere (CHOICE) Act*, introduced by Senator Lee, would further expand 529 savings accounts to qualifying expenses related to virtual learning, tutoring, books, homeschooling, and educational services for students with disabilities.[134] It would also empower low-income families to apply for Federal education funds that can be used in a variety of ways, enabling them to choose the best educational options for their children.[135]

Policymakers should also explore options to break the link between home value and school quality. SCP research, referenced in the ERP, finds that median home prices are four times higher in ZIP codes with the highest quality public elementary schools than in those with the lowest quality public elementary schools.[136] School choice programs help to close this gap by empowering parents to send their children to any school, regardless of location. However, states and localities could also take a more proactive approach by reforming residential zoning regulations and thereby increasing housing choice across school boundaries. There are other policy reforms that could be tried, as well. Indiana, for example, uses sales taxes to fund grants for schools in poorer districts in an effort to equalize per-pupil spending across district lines.[137]

Conclusion

The economic and emotional fallout from the pandemic took an unprecedented toll on Americans, causing many to struggle with the loss of employment, schooling, and childcare. As the United States enters recovery, policymakers should give Americans the tools to succeed now and in the future by removing current barriers to work, increasing the affordability of having and caring for a family, and empowering children and adults to build their skills with a diverse array of educational opportunities.

Recommendations

Connecting People to Work

- Pass the *Working Families Flexibility Act* to allow private employers to extend the option of overtime pay or paid time off to their employees who work overtime.
- Pass the *RBI Act* in order to reduce over-reliance on occupational licensing and pass the *Military Spouse Licensing Relief Act* to create portability for military spouses' licenses.
- State regulatory reforms should support the continued growth of home-based businesses, and continue to remove burdensome occupational licensing regimes and non-compete agreements in order to enhance worker economic and geographic mobility.
- Support workforce development and re-skilling efforts with Federal accreditation reform, and pass the *HERO Act* in order to streamline Federal aid, realign education providers' incentives, improve transparency in student outcomes and enable states to accredit *any* post-secondary institution.

Supporting Families

- Replace the Child and Dependent Care Tax Credit with an expanded Child Tax Credit and a Young Child Enhancement credit for families with children age 5 and younger to eliminate the stay-at-home parent penalty and enable more families to utilize it.

- Make permanent the limits in the TCJA on itemized deductions for mortgage interest and state and local taxes.

- Pass the *CRADLE Act*, which would allow new parents to borrow up to three months of paid parental leave, thereby alleviating some of the initial costs of childbearing and allowing new mothers and fathers to spend more time bonding with their infants.

- Pass the *Childcare Worker Opportunity Act*, which would remove newly imposed regulations increasing the cost of childcare in Washington, D.C.

- States should encourage flexible schooling by removing barriers to nontraditional schooling and empowering families to pursue the education models and cultures that are best for them.

- Pass the *CHOICE Act*, which would allow low-income families to utilize Federal education funds in a way that best fits their needs and further expand 529 savings accounts to allow greater flexibility for families to save tax-free for education expenses.

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