The Heritage Foundation

CONGRESSIONAL TESTIMONY

"Reducing Uncertainty and Restoring Confidence During the Coronavirus Recession"

Testimony before the

Joint Economic Committee

U.S. Congress

July 28, 2020

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My name is Rachel Greszler. I am a Research Fellow in Economics, Budgets, and Entitlements at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

In my testimony today, I would like to: discuss uncertainty and how governments and households can prepare for it, evaluate the benefits and consequences of using government programs to attempt to reduce uncertainty, consider the destabilizing impacts of deficit-financed automatic stabilizers, and propose steps that policymakers can take to help individuals and families better prepare for uncertainties without restricting their freedoms, incomes, and opportunities in the process.

Uncertainty is an unchangeable fact of life. As the COVID-19 pandemic has shown us, no amount of federal spending can take away the uncertainties or hardships of a global health pandemic. Government actions can and should confront the public health crisis and help address the resulting economic consequences. Reducing uncertainty and increasing confidence in the wake of COVID-19 and beyond are shared goals, and policymakers should evaluate both temporary and permanent policy changes with a holistic view of the short- and long-term benefits and consequences. Actions that take away Americans' ability to prepare for their own futures and steps that push the U.S. closer to the brink of fiscal disaster will reduce stability and confidence. But opening doors to work and savings opportunities for individuals and families, along with stabilizing and reducing the national debt, will help prepare Americans and America for known and unknown future challenges.

Uncertainty Is Inevitable, Preparation is Key

Individuals and governments can plan for and reduce the consequences of uncertainties, but cannot eliminate them. For example, as individuals, we know there is a high probability that we will live to an age at which we will no longer want to work and will need money to survive. That is why we should save for retirement. We also know that there is a low-probability but high-cost chance we will die young, leaving behind a family in need of our lost income. That is why many people purchase life insurance.

Budgeting Is Essential. Just as families should budget for both temporary fluctuations in income and unexpected expenses (setting aside three to six months' worth of expenses) and for long-term expenses (buying a home, sending children to college, retiring), governments should also budget for business-cycle fluctuations and long-term costs.

No one expected, nor should they have anticipated, a global health crisis on the magnitude of COVID-19 (though we could have been better prepared). When low-probability, high-cost events such as these hit, it is ideal that governments have funds set aside to address the crisis. If not extra rainy day funds, then at least not high levels of debt that could restrict their ability to borrow at reasonable costs. The U.S. is fortunate that, despite an enormous debt that is beyond the conventional "tipping point" of 90 percent of GDP, the world remains willing and eager to purchase U.S. debt even at low interest rates. We cannot count on this continuing.

Had the federal government reduced, instead of increased, its spending and deficits during the nearly decade-long economic expansion leading up to the coronavirus, it would have been in a better position to spend the additional money needed to combat the health pandemic and the resulting economic consequences.

Had states set aside three to six months' worth of annual revenues (25 percent to 50 percent) in their rainy day funds, they would have been able to cushion the projected 3 percent to 5 percent declines in revenues for 2020 and 2021 and would still have money left over to protect their communities' health and to help individuals and businesses recover financially.

And had individuals and families had three to six months' worth of savings set aside, many would have been able to withstand job losses, school closures, and other consequences of COVID-19 with fewer disruptions and hardships.

Government Limits Americans' Savings. Most Americans do not have three to six months' worth of savings, as recommended by financial advisors. Accumulating such savings can be very hard, especially for individuals who do not yet make enough money to save. Taxes also make it harder to save.

At $5.42 trillion in 2018, Americans spent more on taxes than they did on food, clothing, and housing combined.[1] Sadly, these taxes cover only a fraction of actual spending as the federal deficit in just the first nine months of fiscal year 2020 equaled $2.7 trillion.[2]

Saving is hardest for lower-income families, and the tax and transfer system can makes it even harder to save. If a low-income parent who earns a poverty-level wage gets a 50 percent raise, she will lose at least 27 percent, and potentially over

[1]Rachel Greszler, "Today. You Pay Your Federal Taxes. Tomorrow Is the Real Tax Freedom Day," Daily Signal, April 15, 2019, https://www.dailysignal.com/2019/04/15/today-you-pay-your-federal-taxes-tomorrow-is-the-real-tax-freedom-day/.

[2]Congressional Budget Office, "Monthly Budget Review for June 2020," https://www.cbo.gov/publication/56458 (accessed July 22, 2020).

100 percent, of that raise to taxes and benefit reductions (depending on her state of residency).[3]

And while the Tax Cuts and Jobs Act provided significant tax relief to businesses, the average small business still had only a 27-day cash buffer prior to COVID-19. Low-wage and labor-intensive businesses had even lower cash buffers. Red tape, taxes, and administrative compliance makes it harder for businesses to gain stability and to grow.

One such example is the 2015 National Labor Relations Board ruling in Browning-Ferris Industries, which overturned 30 years of precedent and deemed companies that exercised only indirect control over workers as joint employers. This decision is estimated to have cost franchise businesses as much as $33.3 billion annually, reduced employment by 376,000 jobs, and caused a 93 percent spike in lawsuits against franchises.[4] Fortunately, a recent Department of Labor rule that went into effect on April 27, 2020, should provide welcome relief to franchise businesses that have been hit hard by COVID-19.[5]

Government Stabilizers and Potential Expansions

Government stabilizers are policies that seek to smooth economic ups and downs by reducing government spending and increasing taxes during upturns and increasing government spending and reducing taxes during downturns and abnormal events such as wars and pandemics. If followed correctly, by actually saving resources during good times, such stabilizers can have significant benefits.

The welfare and tax systems include built-in stabilizers through income-based eligibility requirements for welfare programs and percentage-based taxes whereby people pay more in taxes as they earn more and spend more. The progressive income tax structure doubles-up as an automatic stabilizer—people pay additional taxes on their increased earnings, and the rate they pay on those higher earnings rises as well.

In addition to income-based welfare programs, another key automatic stabilizer is state unemployment insurance whereby employers contribute taxes on behalf of their employees, who are then eligible to claim unemployment benefits if they lose their job through no fault of their own. Unemployment benefits help workers get by, financially, during temporary job losses.

Government Stabilizers Are Not Free. The benefits provided by government stabilizers are not without cost. They are effectively a socialized substitute for individuals' and families' savings. Instead of families setting aside a portion of their additional earnings, and using it in the future if their earnings decline or if they face an unexpected event, the government takes a portion of everyone's earnings and redistributes it to individuals and households based on who the government determines should receive benefits and based on

[3] Elaine Maag, C. Eugene Steuerle, Ritadhi Chakravarti, and Caleb Quakenbush, "How Marginal Tax Rates Affect Families at Various Levels of Poverty," *National Tax Journal*, Vol. 65, no. 4 (December 2012), pp. 759–782, https://www.urban.org/sites/default/files/alfresco/publication-pdfs/412722-How-Marginal-Tax-Rates-Affect-Families-at-Various-Levels-of-Poverty.PDF (accessed July 22, 2020).

[4] Ben Gitis, "The Joint Employer Standard and the Supply Chain," American Action Forum, November 26, 2018, https://www.americanactionforum.org/research/joint-employer-standard-and-supply-chain/ (accessed July 24, 2020).

[5] U.S. Department of Labor, "Wage and Hour Division—Final Rule: Joint Employer Part 791," January 12, 2020, https://www.dol.gov/agencies/whd/flsa/2020-joint-employment (accessed July 22, 2020).

what the government determines those individuals and households should receive.

If paid for out of general revenues, government stabilizers redistribute resources from higher-income and working households to lower-income and non-working households.

If paid for through increased deficits (discussed below), government stabilizers redistribute money from younger generations to older ones.

And if financed through designated programs, such as states' unemployment insurance systems, they are essentially forced savings programs. Like private insurance, unemployment insurance programs are "experience rated," meaning that if an employer lays off workers who then claim unemployment insurance benefits, that employer's unemployment tax rates will increase. Because employers shift employment tax costs onto workers through lower compensation, the benefits are generally worker-financed.

Part of the rationale for forced savings programs is that once a government (federal, state, or local level) has committed to providing certain welfare benefits, it is in their interest to minimize who collects those welfare benefits by establishing a worker-financed support system that serves as the first line of defense against temporary income losses.

In considering potential expansions to government stabilizers, I would like to focus on unemployment insurance (UI)—a policy I am most familiar with—and briefly consider other proposals to add or expand other programs.

Expanding UI to the Self-Employed. Prior to COVID-19, unemployment insurance benefits were not available to the self-employed, who, as full-time workers represent about 10 percent of the workforce. (Self-employed includes individuals who own their own businesses, contractors, gig-workers, freelancers, and temp workers). The rationale for not including self-employed workers is presumably that these individuals work for themselves and therefore cannot be laid off by someone else.

Some policymakers and researchers advocate for extending unemployment benefits to the self-employed. This is already something that workers could potentially purchase in the private market, but the fact that they do not suggests that private savings is a more efficient way for the self-employed to insure against income losses.

This is the case because under an experience-rated system, an individual who claims unemployment would face extremely high tax increases in the future to compensate for their claim. With taxes paid roughly equaling benefits received, the system would not vary all that much from personal savings and borrowing, but workers would have to pay a premium for administration of the system and they would lose some control over when they could access their savings and how much they could spend.

If self-employed unemployment insurance were more socialized and everyone paid the same rate, there could be significant misuse and abuse of the system. For example, workers could use unemployment benefits during seasonal declines in income or to take long-term vacations. There may be ways to limit potential abuse, but it would be harder with certifications coming directly from the individuals claiming the benefits.

Expanding UI Benefits Levels and Durations? Logically, it makes sense to extend the number of weeks during which individuals can receive unemployment benefits during economic downturns when fewer work options exist. There is value in helping to prevent more significant hardships such as foreclosures. But there are also consequences to extending unemployment benefits and policymakers must consider both the benefits and consequences.

Unemployment extensions lead to longer durations of unemployment and reduced economic output. In part, this is because individuals are less likely to accept job offers—especially subpar ones—when their benefits are not about to expire. Researchers at the New York Federal Reserve[6] estimated that the unprecedented expansion in the duration of unemployment benefits (up to 99 weeks) during the Great Recession reduced employment by 4.6 million jobs in 2010 and by 3.3 million in 2011.[7]

Increasing Unemployment Benefit Amounts. Unemployment benefits typically replace about 40 percent to 50 percent of workers' wages. Prior to COVID-19, the federal government had never increased the level of unemployment benefits. But the short-term nature of COVID-19 shutdowns and forced closures led policymakers to provide larger unemployment benefits to help bridge what was expected to be a short-term gap. Higher unemployment benefits have certainly alleviated individual and family hardships and prevented a deeper and more prolonged downturn, but they have also almost certainly contributed to higher unemployment levels and increased unemployment durations. Evidence from other countries that have altered unemployment benefit levels find that higher benefits lead to more unemployment claims[8] and longer durations of unemployment.[9] These studies suggest that the $600 bonus benefit could increase the number of initial unemployment claims by 69 percent to 117 percent and increase the average duration of benefits by 97.5 percent, from 21.3 weeks to 42.1 weeks.[10]

While higher unemployment benefits made sense due to the unique nature of COVID-19, they arguably do not make sense in ordinary times. Not only would higher benefits result in lower employment, as verified by the Congressional Budget Office (CBO) in a recent analysis of extending the $600 additional unemployment benefit, but higher benefits would require higher taxes and cause workers to save less to prepare for a potential job loss.

Higher benefit levels made sense for COVID-19, but they do not make sense as permanent policy. In the short term, Congress should replace the $600 bonus benefit with a partial federal match, adding 40 percent on top of what states provide for unemployment benefits. Ideally, benefits would equal a percentage of workers' wages, but given alleged constraints in states' systems to tie benefits to wages, a

[6]Marcus Hagedorn et al., "Unemployment Benefits and Unemployment in the Great Recession: The Role of Equilibrium Effects," The Federal Reserve Bank of New York *Staff Report* No. 646, revised September 2019, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr646.pdf (accessed April 13, 2020).
[7]Author's calculations based on unemployment and labor force data from 2010 and 2011. See Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject," https://www.bls.gov/data/ (accessed April 13, 2020).
[8]Patricia M. Anderson and Bruce D. Meyer, "Unemployment Insurance Benefits and Takeup Rates," National Bureau of Economic Research *Working Paper* No. 4787, June 1994, https://www.nber.org/papers/w4787.pdf (accessed April 16, 2020). This study also provides a review of other studies which, using slightly different methods and data, find elasticities ranging between about 0.2 and 0.6.
[9]David Card et al., "The Impact of Unemployment Benefits on the Duration of Unemployment Insurance Receipt: New Evidence from a Regression Kink Design in Missouri, 2003–2013," National Bureau of Economic Research *Working Paper* No. 20869, January 2015, https://www.nber.org/papers/w20869.pdf (accessed April 23, 2020).
[10]Drew Gonshorowski and Rachel Greszler, "The Impact of Additional Unemployment Insurance Benefits on Employment and Economic Recovery: How the $600-per-Week Bonus Could Backfire," Heritage Foundation *Center for Data Analysis Backgrounder* No. 3490, April 29, 2020, https://www.heritage.org/sites/default/files/2020-04/BG3490_0.pdf.

partial federal match should be simple to implement.

Automatic Stimulus Payments. To help alleviate downturns as they begin, some have proposed having the government send out direct payments when the unemployment rate rises rapidly. This would provide a short-term boost, but the impact could be muted by the fact that individuals will not necessarily spend the money, especially if they have not lost jobs or incomes. Even in the least economically damaging scenario in which such payments would be pre-funded (forced savings) as opposed to extracting from future incomes and economic growth, they would nonetheless not be optimal for many households because the forced savings would prevent some households from making the choices that were best for them in their own time. (Perhaps the breadwinner lost his or her job a year before the downturn and needed the money last year, but not now.)

Increase the Federal Match Rate for Medicaid and CHIP During Downturns. Shifting costs from state governments to the federal government during downturns would exacerbate federal government debts (which already increase during downturns). It would also have the consequence of discouraging states from maintaining healthy rainy day funds, because they would not need to save for increased health care costs. Consequently, states could be less prepared to address future downturns and unexpected crises.

If Congress wants to help states pay for these programs, it should start by giving states flexibility to manage their Medicaid enrollment. States should not be forced to enroll individuals who have employer-sponsored insurance.[11]

Countercyclical TANF and SNAP Benefits. Most welfare benefits like Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP) are already based on income, so when people lose jobs or have reduced incomes, they are more likely to qualify for these benefits. While a new work requirement was set to go into place in April for fewer than 2 percent of SNAP beneficiaries—those who are able-bodied individuals between ages 18 and 49, and who do not have dependents—that requirement was effectively put on hold during the public health emergency.[12] Moreover, SNAP benefits are already sensitive to economic conditions such that the work requirements only apply if the state unemployment rate is below 6 percent, on average, over the previous 24-month period.[13]

Government Stabilizers Reduce Work, Savings, Personal Choices, and Opportunities

When the government establishes programs that guarantee individuals specified benefits under prescribed circumstances, individuals naturally save less because they have fewer reasons to save.

When the government taxes people to pay for such programs, they have less money available to save.

When taxes reduce the fruits of individuals' labor, they work less.[14]

[11]Leslie Ford, "Expansion of Safety-Net Programs During the COVID-19 Crisis," Heritage Foundation *Backgrounder* No. 3509, July 16, 2020, https://www.heritage.org/sites/default/files/2020-07/BG3509.pdf.
[12]Ibid.
[13]Ibid.

[14]People working less in response to higher taxes assumes the substitution effect dominates. If individuals face tight budget constraints, the income effect may dominate and they may work more in order to have enough income to cover their necessities or desired choices.

And when one-size-fits-all government programs determine who can receive what benefits and under which circumstances, individuals and families have less control over their future and fewer opportunities to pursue what is best for them.

In this regard, "stabilizers" or mandatory insurance programs can lead to less work, lower savings, a smaller economy, and fewer personal choices.

Social Security as a Prime Example. Social Security was first established to prevent individuals who were too old to work from outliving their savings. It came about as a result of a major crisis in U.S. history—the Great Depression—in which many individuals lost their entire life savings. As we are discussing today, the goal was to prevent future uncertainty.

Individuals would exchange a small portion of their earnings—only 2 percent initially—for the certainty that they would receive a small stipend if they lived longer than the average person. Social Security was not supposed to significantly burden individuals and it was not supposed to replace retirement savings. It was supposed to insure against what was at the time a less-than-50-percent likelihood that individuals would live to age 65, and an even lower likelihood that they would outlive their savings.

Fast forward eight decades and Social Security now consumes six times as much—12.4 percent—of workers' paychecks. The median worker pays far more in Social Security taxes than they do in taxes to finance every other function of the federal government.[15]

This heavy tax burden—$6,200 per year for someone who earns $50,000—makes it difficult for individuals to save for all sorts of planned and unplanned life events.

Instead of households being able to set money aside and use it in ways that are best for them—like purchasing a home that will grow in value over time, being able to take time off from work to stay home with a new child, saving for that child's education, starting a new business, or helping support a family member in need—all of that money is locked up in Social Security. Many individuals who die before they reach Social Security's retirement age lose tens or hundreds of thousands of dollars that they paid into the system and that otherwise could have helped provide for their families.

Even workers who receive Social Security benefits for decades will receive far less than they could have if they had saved on their own because Social Security does not actually save workers' contributions. Rather, every dollar that goes into the system today goes immediately out the door to current retirees. Around 2034, Social Security will no longer have any trust fund IOUs to cash in, and will only be able to pay about 75 percent of scheduled benefits.

This means that my scheduled benefits are dependent on Congress's willingness to raise taxes on my children and future grandchildren to support my benefits. And despite the notion that workers are "entitled" to their benefits, they have no legal claim on them and Congress can change or take away Social Security benefits at any time.[16]

[15] A single individual who earns the median wage of $971 per week or $50,500 per year pays $4,421 in federal income taxes and $6,261 in Social Security taxes, including both the employer and employee portion.

[16] In 1960, in the case of *Flemming vs. Nestor*, the Supreme Court ruled that entitlement to Social Security benefits is not a contractual right. See Social Security Administration, "Supreme Court Case: Flemming vs. Nestor,"

It also means that all workers are being stripped of the opportunity to earn a positive return on their "savings" over time. If you know anything about the power of compound interest, you know that it produces enormous returns over time.

I recently demonstrated this effect to my children by showing them their college accounts, which we established between 2008 and 2018. Over 50 percent of the value of their accounts is from investment returns. That means that if we had just put our money in a safe, we would have about half as much available to pay for our children's college education.

My colleagues and I at the Heritage Foundation analyzed the impact of these lost potential investments for current workers and found that, across the income spectrum, workers would have far more money in retirement if they were able to save their Social Security taxes in their own personal accounts.[17]

A low-income worker earning about $20,000 per year could receive $360 more per month (40 percent more than Social Security provides) by saving and purchasing a lifetime annuity at retirement.[18] Alternatively, she could use her $355,000 in accumulated savings as she pleased, including passing some of it on to her heirs.

A middle-income worker earning about $60,000 per year could receive nearly $4,000 more per month (about 180 percent more than Social Security provides) by saving and purchasing a lifetime annuity at retirement. Alternatively, he could use his $1.56 million in accumulated savings as he pleased.[19]

Instead of using all those savings for retirement, those workers could have spent some of their savings throughout their working years, based on what was best for them and their families. Individuals know better than government officials that they have never met what decisions are best for them and their families.

In short, the trade-off between government stabilizers and personal savings is receiving a guaranteed benefit under prescribed circumstances, but losing control over who receives those dollars, when they receive them, how much they receive, and sometimes on what they can spend them.

Deficit-Financed "Stabilizers" Will Destabilize America's Financial Future

There is another key way in which government stabilizers or insurance programs differ from personal or private ones; that is the federal government's fiscal situation. Discussions about adding new government programs to "reduce uncertainty" or about spending more money to "restore confidence" in the recovery, must first recognize the federal government's $26 trillion in debt and unsustainable fiscal trajectory.

If the federal government were an average household, it would spend $75,000 per year, despite making only $63,000 per year, which

https://www.ssa.gov/history/nestor.html (accessed July 24, 2020).

[17]Kevin Dayaratna, Rachel Greszler, and Patrick Tyrrell, "Is Social Security Worth Its Cost?" Heritage Foundation *Backgrounder* No. 3324, July 10, 2018, https://www.heritage.org/budget-and-spending/report/social-security-worth-its-cost?_ga=2.113762831.948898437.1595443597-1304564289.1587117732.

[18]Rachel Greszler and Julia Howe, "3 Examples of How Social Security Robs Americans of Greater Income Before, During Retirement," Daily Signal, August 24, 2018, https://www.dailysignal.com/2018/08/24/3-examples-of-how-social-security-robs-americans-of-greater-income-before-during-retirement/.

[19]Ibid.

means it would have to put $12,000 on the credit card, despite already being $390,000 in debt.[20]

That means that any additional spending to reduce uncertainty or stimulate the economy today results in greater uncertainty and a smaller economy in the future.

If policymakers do not recommend that families consistently spend more than they make and that they repeatedly take out new lines of credit each time an unplanned expense occurs, they should not create government programs that do the same.

While creditors will stop lending to individuals at some point, and debt collectors will come knocking, it seems like the U.S. government can borrow forever without consequence.

The fact that interest rates are exceptionally low even as the U.S. debt has reached record highs makes borrowing seem all the more beneficial. But government debts will come due, and at some point, creditors will lose confidence in the U.S.'s ability to repay its debts and will begin to demand higher and higher interest rates. According to the International Monetary Fund's 2019 projections, the U.S. is an outlier in its unsustainable fiscal trajectory. Not only was the U.S. one of only four out of 25 countries with its debt projected to rise over the next five years, but its projected 11 percent increase was magnitudes above Italy, Japan, and Korea's projected increases.

Just as it is unknown which proverbial straw will break the camel's back, we do not know which dollar of additional debt will tip the U.S. into a fiscal crisis, but each dollar pushes us closer. Once a fiscal crisis hits, more often than not, it hits hard and fast, meaning slow retreat is not an option.[21]

When a fiscal crisis hits and a country can no longer borrow at reasonable rates, tax increases that were previously considered outrageous and spending cuts previously deemed reprehensible would all be on the line.

Exchanging the temporary coronavirus crisis for a long-term fiscal crisis is not desirable. While it is tempting to increase government debt in ways that would help the economy in the short term and appear to increase stability going forward, doing so would likely reduce stability by pushing America closer to the brink of fiscal disaster.

But expanding the size of government and increasing the debt are not the only option. There are lots of other ways that policymakers can help reduce uncertainty, restore confidence, and increase opportunities and incomes for all Americans.

Solutions Instead of Band-Aids: Boosting Opportunities, Incomes, and Flexibility for All Americans

In the short term, targeted government responses to the global health pandemic can help alleviate uncertainties and financial hardships caused by COVID-19, but those policies are not long-term solutions to increase incomes, opportunities, and freedoms for all Americans.

Instead, policies that promote work opportunities, support increased productivity (incomes only rise if people become more productive), help people save more, and allow

[20]These figures are from 2019 and do not include the impacts of COVID-19 spending. See "U.S. Budget vs. Family Budget," in *Federal Budget in Pictures*, The Heritage Foundation, https://www.federalbudgetinpictures.com/us-budget-vs-family-budget/ (accessed July 24, 2020).

[21]There are instances in which high levels of debt have been sustained for long periods of time without a unique crisis turning point, such as in Japan, but that debt has contributed to an exceptionally low or no economic growth for decades.

individuals to pursue what is best for them are needed.

To that end, policymakers should:

Help Bridge COVID-19 Unemployment Gaps with a Partial Federal Match. Although more people have found employment in the past two months than in 46 months during the Great Recession, unemployment remains high and certain sectors of the economy have experienced permanent job losses and will take time to recover or transform. Since most job losses are direct results of COVID-19 as opposed to structural weakness or permanent shifts, it makes sense to provide some short-term federal support. Congress should replace the flawed $600 additional unemployment benefit that will expire on July 31 with a partial match to state benefits. This match, which I recommend to provide 40 percent of what states pay, should also apply to partial-benefit programs that allow workers who have regained jobs but with reduced hours and incomes to still receive partial unemployment benefits.[22] Such benefits would be particularly helpful as many businesses have reopened, but will not fully regain their previous revenues for some time.

The match could start at 40 percent in August and decline 10 percent each month thereafter, ending in December. For a worker who currently receives a state benefit equal to 50 percent of his previous earnings, the federal match would bring that benefit to 70 percent.

A partial benefit should be easy for states to implement. All they would need to do is multiply the benefit they already calculate by a factor of 1.4 (and by a smaller factor over time).

Instead of a one-size-fits-all specific dollar amount, a partial federal match would give states more autonomy to meet the unique needs of their populations as they see fit.

Enact Universal Savings Accounts (USAs). If Americans could set aside savings in a single, simple, and flexible account to use on what they want when they want and without penalty or double-taxation, they would save more and be better prepared for the future.[23] USAs would be especially helpful for low- and moderate- income households. Both Canada and the U.K. have USAs and low-income and moderate-income savers represent over 50 percent of account holders, and they contribute the highest percentages of their incomes.[24]

Provide a Safe Harbor Liability Protection for Businesses, Schools, and Workers that Follow CDC Guidance in Good Faith. A safe harbor would provide much-needed confidence and stability that encourages business owners to reopen and re-employ workers and for schools to reopen and provide fundamental education and other supports to children and families.

[22] Rachel Greszler, "Tackling COVID-19 Unemployment: Work Opportunities and Targeted Support Beat Windfall Bonuses," Heritage Foundation *Backgrounder* No. 3506, July 1, 2020, https://www.heritage.org/jobs-and-labor/report/tackling-covid-19-unemployment-work-opportunities-and-targeted-support-beat (accessed July 24, 2020).

[23] Adam Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings

[24] Organization for Economic Cooperation and Development, "Encouraging Savings Through Tax-Preferred Accounts," OECD Tax Policy Study No. 15, 2007, https://www.oecd-ilibrary.org/taxation/encouraging-savings-through-tax-preferred-accounts_9789264031364-en (accessed July 24, 2020).

Clarify and Harmonize the Government's Multiple Definitions of "Employee" Versus Contractor. Different tests and rules to determine who is, and is not, an employee of a company make it needlessly difficult for employers and workers to differentiate between employees and contractors. This increases costs and decreases work flexibility for the growing number of independent workers. Policymakers should consistently apply the "common law" test, based on how much control an employer exerts over a worker, throughout tax and employment law.

Codify the Direct-Control Definition of a Joint Employer. [25] Uncertainty over the future classification of nearly 8 million employees could threaten the future of the 750,000 individual franchise operations in which they work. Without certainty that a future Administration will not revert to the previous standard that was estimated to have cost franchise businesses as much as $33.3 billion annually, reduced employment by 376,000 jobs, and caused a 93 percent spike in lawsuits against franchises, the franchise model will be less likely to survive or expand in the future.[26]

Repeal Work Restrictions, such as California's AB5 Law. By changing the definition of an employee versus a contractor to effectively outlaw most freelancing, contracting, and gig-economy jobs, AB5 has taken away many individuals' and families' livelihoods and autonomy to be their own bosses. More than ever before, COVID-19 has increased the need for flexibility and income opportunities. Even before this health pandemic, 46 percent of workers who freelance said they were unable to work for a traditional employer because of personal circumstances, such as health conditions and family situations. [27] And 76 percent of workers who do not freelance said that they would consider freelancing in a recession.[28]

Do Not Drive Up the Cost of Employment. With small businesses and lower-wage workers already among the hardest hit by the economic impacts of COVID-19, setting artificially high minimum wages could drive more companies out of business and disproportionately eliminate jobs for less-advantaged workers.

Give Workers the Choice to Join a Union. With the high cost of union dues—about $600 per year for someone making $50,000,[29] and equal to what the average household spends on food in a month[30]—Congress should give all workers the freedom to choose to pay union dues or not, and simultaneously free unions from having to represent workers who do not pay union dues.

Make Full Expensing Permanent. Starting in 2020, businesses will no longer be able to fully deduct investments in equipment, tools, and structures, which will reduce valuable investments that make workers more productive and increase incomes.

Enact a "Physical Presence" Standard. Small businesses selling online are now subject to the more than 10,000

[25]U.S. Department of Labor, "Wage and Hour Division—Final Rule: Joint Employer Part 791," January 12, 2020, https://www.dol.gov/agencies/whd/flsa/2020-joint-employment (accessed May 12, 2020).
[26]Ben Gitis, "The Joint Employer Standard and the Supply Chain," American Action Forum, November 26, 2018, https://www.americanactionforum.org/research/jointemployer-standard-and-supply-chain/ (accessed May 12, 2020).
[27]UpWork, "Freelancing in America, 2019," https://www.upwork.com/i/freelancing-in-america/ (accessed June 11, 2020).
[28]Ibid.
[29]Typical union dues equal two work hours per month. At $50,000 per year, or about $25 per hour, this amounts to $600 in annual union dues.
[30]Trent Hamm, "Lessons from the Average American's Food Expense," The Simple Dollar, April 13, 2020, https://www.thesimpledollar.com/save-money/lessons-from-the-average-americans-food-expense/ (accessed May 18, 2020).

different taxing jurisdictions, each with their own tax rates and rules. A physical presence standard would provide tax relief and eliminate burdensome administrative costs for small businesses, many of which are struggling to survive.

Repeal the Davis–Bacon Act. The Davis–Bacon Act artificially drives up the cost of construction projects that receive federal funds by applying a deeply flawed wage calculation. Not only should this act be repealed to save taxpayers up to $1.4 billion annually (according to the CBO), but it should not apply to any additional federal funds as proposed in the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act for contract tracers and other workers receiving funding under the act.

Roll Back the Recent Increases in the Overtime Rule Threshold. Economists widely agree that employers will pass cost increases from overtime rules back to workers through lower pay or lower benefits—which is especially true now as businesses face more narrow margins. The overtime threshold also causes employers to more closely monitor employees' work, including taking away flexibility and remote work that have been crucial in the wake of COVID-19. Rolling back the recently enacted higher threshold will give employers and workers the flexibility they need to keep more people employed.[31]

Allow Hourly Workers to Choose Paid Time Off. The coronavirus health crisis and many of the containment measures—children home from school and day care, and temporary shutdowns and slowdowns—have highlighted the value of paid time off, yet private employers are prohibited from allowing their workers to choose "comp time" instead of overtime pay. The Working Families Flexibility Act would eliminate this prohibition so that, both during and beyond this health pandemic, lower-wage hourly workers would have the same right as state and local workers to choose between paid time off and cash pay.[32]

In addition to these steps that Congress can take, state and local lawmakers should eliminate burdensome licensing requirements; end "Certificate of Need" laws; reduce barriers to accessible and affordable childcare; treat pandemic-caused remote work as office work for tax purposes; and remove barriers to home-based businesses.

Summary

There is a role for government to provide a safety net, and to respond to crises such as COVID-19, but the federal government should not protect against any and all planned and unplanned life events. Often times, state and local governments are better positioned to more effectively meet the needs of their communities.

Although government programs can reduce uncertainty, they typically come with only one option, can be difficult to qualify for, and are often inadequate upon receipt. Consequently, many families have lower incomes and fewer choices.

By replacing personal savings with deficit-financed spending, additional government stabilizers would redistribute income from younger generations to older ones, reduce

[31]Rachel Greszler, "3 Ways Obama's New Overtime Rule Will Hurt Employees," The Daily Signal, August 26, 2016, https://www.dailysignal.com/2016/08/26/3-ways-obamas-new-overtime-rule-will-hurt-employees/.
[32]Rachel Greszler, "A Simple Way to Help Workers and Employers Hurt by Coronavirus," Heritage Foundation *Commentary*, March 15, 2020, https://www.heritage.org/jobs-and-labor/commentary/simple-way-help-workers-and-employers-hurt-coronavirus.

investment, and result in a smaller economy and lower incomes in the future.

Instead of looking to new ways for government to spend taxpayers' money and drive future generations deeper into debt or fiscal catastrophe, policymakers should look to ways to help workers and families be able to achieve their own desires and potential—whatever those may be.

Some of the key components of certainty and confidence are having ample opportunities to work, earn a living, and save for the future. Policymakers can reduce barriers to employment in the short and long term by allowing safe reopenings of society, providing limiting liability for workers and businesses that follow CDC guidance, respecting individuals' right to work, repealing wage restrictions that reduce jobs, and ending restrictions that limit workplace flexibility. Moreover, removing red tape and reducing the most harmful taxes (such as on investment) will lead to increased productivity and income gains.

These are the types of policies that led to a 50-year record low-unemployment rate and strong income growth with the largest gains for the lowest-income earners prior to COVID-19. Along with a serious commitment to reducing the federal government's spending and debt, these are the same types of policies that will help reduce uncertainty, restore confidence, and help Americans flourish.

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