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# IMPLEMENTATION OF TITLE IV OF THE CARES ACT

## HEARING

BEFORE THE

## COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING TITLE IV OF THE CARES ACT

JUNE 2, 2020

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# C O N T E N T S

**TUESDAY, JUNE 2, 2020**


| | Page |
|---|---|
| Opening statement of Chairman Crapo | 1 |
| Prepared statement | 37 |
| Opening statements, comments, or prepared statements of: | |
| Senator Brown | 3 |
| Prepared statement | 38 |


**WITNESSES**


| | |
|---|---|
| Thomas Quaadman, Executive Vice President, Center for Capital Markets Competitiveness, U.S. Chamber of Commerce | 5 |
| Prepared statement | 39 |
| Responses to written questions of: | |
| Senator Brown | 55 |
| Senator Cortez Masto | 56 |
| Senator Jones | 56 |
| Douglas Holtz-Eakin, President, American Action Forum | 7 |
| Prepared statement | 46 |
| Responses to written questions of: | |
| Senator Cortez Masto | 59 |
| Senator Jones | 60 |
| Senator Sinema | 60 |
| Heidi Shierholz, Senior Economist and Director of Policy, Economic Policy Institute | 8 |
| Prepared statement | 50 |
| Senator Brown | 61 |
| Senator Cortez Masto | 63 |
| Senator Jones | 66 |


ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD


| | |
|---|---|
| Letter submitted by CUNA | 68 |
| Letter submitted by NAFCU | 70 |

# IMPLEMENTATION OF TITLE IV OF THE CARES ACT

**TUESDAY, JUNE 2, 2020**

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
*Washington, DC.*

The Committee met by videoconference at 10 a.m., Hon. Mike Crapo, Chairman of the Committee, presiding.

## OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. This hearing will come to order. This hearing is another remote hearing by video.

A few videoconferencing reminders: Once you start speaking, there will be a slight delay before you are displayed on the screen. To minimize background noise, please click the mute button until it is your turn to speak or ask questions. If there is a technology issue, we will move to the next Senator until it is resolved. I remind all Senators and the witnesses that the 5-minute clock still applies, and there is a box—should be—on screens showing the 5 minutes. I am going to keep tapping that tap to remind you of the clock so that we can stay on time, because we are also pushed up against a vote again today at 11:45. At 30 seconds remaining, I will try to remember to give a gentle tap. To simplify the speaking order process, Senator Brown and I have again agreed to go by seniority for this hearing.

Also, for all of the Members, once you have checked in or signed into the remote hearing system, you are recorded as present. There are some who have wondered whether they had to stay engaged and proved their presence. Once you are checked in, you are signed into the Committee hearing.

With that, we will welcome everyone to this virtual hearing, and we welcome the following witnesses: Mr. Thomas Quaadman, executive vice president of the U.S. Chamber Center for Capital Markets Competitiveness; Dr. Douglas Holtz-Eakin, president of the American Action Forum; and Dr. Heidi Shierholz, senior economist and director of policy at the Economic Policy Institute.

Congress and the Administration have taken extraordinary actions to mitigate the impact of the COVID–19 pandemic and provide conditions that will lead to a forceful economic recovery.

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, has been central to that effort.

Today we will focus on Title IV of the CARES Act, which provided a $500 billion infusion into the Exchange Stabilization Fund, and the Department of Treasury to assist that fund, the bulk of

which is being used to support the Federal Reserve's emergency lending facilities.

This unique lending authority, known as 13(3) authority, is authorized under Section 13 of the Federal Reserve Act and plays a critical role in stabilizing markets.

We will receive testimony from each witness on the impact that the 13(3) facilities have had so far on the economy, what the policy tradeoffs are of expanding or restricting the term sheets of the 13(3) facilities, how the unused funds from Title IV should be prioritized or leveraged, and an overall focus on Title IV implementation.

Beginning on March 17, 2020, and before the CARES Act was signed into law, the Federal Reserve had already announced six 13(3) facilities.

On April 9, 2020, after the passage of the CARES Act, the Federal Reserve Board and Department of Treasury announced new and expanded lending programs to provide up to $2.3 trillion in loans. This was a powerful step forward to support the flow of credit in the economy.

At the Banking Committee hearing with Secretary Mnuchin and Chairman Powell on May 12, 2020, Secretary Mnuchin noted that the mere announcement of the Corporate Bond Facility, without putting up $1 of taxpayer money, unlocked the entire primary and secondary market for corporate bonds.

The Federal Reserve's recent Financial Stability Report highlighted a similar effect on financial markets resulting from the announcement of other facilities, noting that "Indicators of market functioning improved after the announcement of the CPFF, the MMFL, and the PDCF."

Although the announcement of many of these facilities can help move markets toward more normal functioning, becoming operational is key to achieving their full potential.

With respect to the Federal Reserve's emergency lending facilities, I look forward to hearing how announcing and operationalizing the facilities have impacted the economy and financial markets so far; how the facilities have provided or stand to provide necessary credit to households, businesses, States, and local governments; ways that the facilities could be improved; and how existing term sheets could be further expanded or opportunities to build upon the efforts of existing facilities.

The Main Street Lending Facilities and Municipal Liquidity Facility extend a lifeline to States, local governments, tribes, and businesses by supporting over $1 trillion of lending with $110 billion of Title IV funds.

Incorporating widespread restrictions in these facilities could render the facilities ineffective and leave businesses and their employees without critical resources they desperately need.

Excessive restrictions not only risk ineffectiveness for the Main Street Lending Facilities, but also for other facilities as well.

For example, on May 11, the Fed updated the term sheet for the Municipal Liquidity Facility to lower the population thresholds for cities and counties, despite not being included in the CARES Act at all.

While this was a step in the right direction, it still leaves many smaller and rural communities without direct access to financial resources, including no cities or counties in Idaho.

Each of these facilities, especially those funded by the CARES Act, provide an opportunity to support businesses, employees, States, and local governments whose lives have been suddenly turned upside down by the Government's effort to stop the spread of COVID–19.

The work to get these facilities up and running has been of immense importance, and it now must be ensured that they are structured to achieve the greatest impact for those in need.

I appreciate each one of you joining us today.

Senator Brown.

**OPENING STATEMENT OF SENATOR SHERROD BROWN**

Senator BROWN. Thank you, Mr. Chairman, for holding this hearing.

The pandemic has been the "great revealer." It reminds us how vulnerable many Americans are and how the economy and Government policy tilt in favor of the wealthy, the powerful, and the privileged.

A grocery store worker in southwest Ohio told me recently, "I do not feel safe at work; they do not pay me much. They tell me I am essential, but I feel expendable."

Long before this pandemic, millions of Americans knew that we have a system that treats them like they are expendable. Their hard work is not paying off. For some it feels like the system is broken, and for black and brown workers, it never worked to begin with.

It is those black and brown communities across our country who have been hit hardest by the coronavirus. They are more likely to get sick, they have less access to health care, they make up the communities hurt by Jim Crow and redlining laws, they disproportionately make up our essential workers. It is not because they do not work as hard; it is not because of individual choices. We all work hard; we are all trying to do something productive for our family and our community; we all want to build a better country for our daughters and for our sons.

No, it is because of a system that has been making it harder for their work to pay off and putting their lives at risk for generations—long before this virus appeared.

It does not matter if they are jogging in their neighborhoods, if they are protesting injustice, if they are asleep in their beds, or if they are driving to the store. Black men and women know that systemic racism puts their lives and the lives of their children at risk. All the time.

This is their everyday.

When Breonna Taylor was killed by police in Louisville, when George Floyd was killed by police in Minneapolis, people came to the streets across this country to peacefully protest. It is an expression of fear and grief and frustration and anger. It is same grief we had in Cleveland when 12-year-old Tamir Rice was gunned down by police in a park.

More black sons and daughters and mothers and fathers killed by police officers, the very people who are supposed to protect all Americans. More death, when many are already grieving the loss of family members and friends to the coronavirus and grappling with the economic stress that this pandemic has caused.

Black communities led the Nation in mourning the killings of George Floyd and Breonna Taylor over the last week—leading calls for justice and long-term changes to dismantle systems of oppression.

In the midst of that trauma and grieving, millions of those same Americans still go to work, day after day, week after week.

Our job is to show victims of systemic racism at the hands of their own Government that the same Government will protect them from this pandemic—that we hear them, that we see them, that we fight for them, and that their lives matter.

Our response to this crisis must be to stand behind the people who make this country work—all workers, whether you punch a clock or swipe a badge, whether you earn a salary or work for tips, whether you are raising children or caring for an aging parent, whether your hard work is not paying off now, or whether it has never paid off the way it should.

Not everything, of course, is about money. But the work we do on this Committee should show Americans that the Government is actually on their side. Our work on this Committee needs to address wealth inequality, needs to make sure everyone is treated fairly.

Instead, we are repeating the mistakes of the past, helping the rich and powerful, and the corporations they run, while leaving most Americans again to fend for themselves. We have committed trillions of dollars to bail out corporations, without requiring those corporations to take care of their workers.

Dr. King said, "One day our society will come to respect the sanitation worker. For the person who picks up our garbage, in the final analysis, is as significant as the physician, for if he does not do his job, diseases are rampant. All labor has dignity."

It is black and brown workers who have been robbed of their dignity on the job—far, far too often.

If we want to be a country where every person has dignity, we need to start by recognizing that all labor has dignity.

But so far, our response to this crisis is not the response of a Government that believes that.

Congress can always find trillions of dollars for corporations—for tax cuts, for bailouts. When hardworking families need help with rent or to put food on the table, this President and this Senate says we simply cannot afford it.

The President and his Administration had already made racial and economic inequality worse in just 3½ short years and undone civil rights protections. They have been pretty clear they are willing to put workers' lives at risk—to reopen stockyards, or even just to juice the stock market.

And last night, the President of the United States—think of that—turned the arm of the State on peaceful protesters, tear-gassing citizens he is supposed to serve and exploiting a house of worship as he held up a Bible, all to stage a photo op.

President Trump and his administration and his sycophants in Congress believe that millions of Americans are expendable. It is not a coincidence that many of the people they consider expendable are black and brown workers.

Since the President is unwilling to protect people, whether that is protecting their lives or protecting their financial future, it is up to us, Mr. Chairman, in this Committee and this Senate to fill the leadership void.

I hope today's witnesses shed light on what we must do to make sure the economic recovery is not uneven and unjust, like the last one.

Mr. Chairman, I will close with this:

Whenever people bring up the ways the system has failed so many Americans—online, at a hearing, or at a protest march—there are always the naysayers—always white, usually men, often pretty well off—who say, "How can you be so negative? Why do you want to dwell on all the worst parts of our country's history? Don't you love our country?"

My response to our country's naysayers and sunshine patriots is this: How can you be so pessimistic as to believe this is the best that America can do? Do you really think that the American people, with our ingenuity and optimism and our tenacity, do you really think we cannot create a fairer economy and a more just Government? Do you really truly believe we cannot have a society that works for everyone—black and white and brown, women and men, no matter who you are, no matter what kind of work you do?

Protesting, working for change, organizing, speaking out, demanding our country do better—those are some of the most patriotic things all of us can do.

I love my country, and if you love this country, you fight for the people who make it work. All of them.

Thank you, Mr. Chairman.

Chairman CRAPO. We will hear from the witnesses in the order I introduced you. I remind you that we would like you to follow the 5-minute clock as well, and even in your answers, when you are being asked questions, often what happens is a question will be lobbed to you just as the 5-minute clock is expiring. When that happens, I encourage you to respond very quickly so we can move on. And if it requires a long answer, then offer to provide that answer in writing.

With that, we will go to you, Mr. Quaadman.

**STATEMENT OF THOMAS QUAADMAN, EXECUTIVE VICE PRESIDENT, CENTER FOR CAPITAL MARKETS COMPETITIVENESS, U.S. CHAMBER OF COMMERCE**

Mr. QUAADMAN. Thank you very much. Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to testify on the implementation of Title IV of the CARES Act.

By mid-March the United States, because of COVID–19, was faced with an unprecedented economic shutdown, a sharply declining stock market, and nonfunctioning credit markets. As you sit here today, the cost has been significant. Forty million Americans are unemployed and countless businesses have shuttered, many

permanently. Without swift Government intervention, this situation would have been more severe and painful.

Title IV of the CARES Act has helped to bridge the gap and allowed some green shoots to appear. The PPP has provided relief to millions of small businesses, allowing them to survive. Through the actions of Congress, Treasury, and the Federal Reserve, nine 13(3) credit facilities have been funded or established. Each of these covers an important segment of the economy or financial markets. This comprehensive approach has helped to stabilize the financial markets while collecting the resources necessary to restart the economy. The Commercial Paper Facility has allowed the commercial paper markets to operate and fill the daily cash management needs of businesses.

The mere existence of the Primary Dealer Credit Facility, Primary Market Corporate Credit Facility, and Secondary Corporate Credit Facility have restarted the corporate debt markets. This has allowed businesses to raise over $1 trillion of private capital in a short period of time to fund their operations and manage their way through the crisis.

The Municipal Liquidity Facility is critical for State and local governments to tap the bond markets and meet their funding needs. The Chamber supported the Fed's expansion of this program. The resurrection of TALF has kept the securitization markets operating. This is critical for consumers to meet their financial needs. We also believe this program should be expanded to assist commercial real estate to help avoid potential market disruptions.

These programs have helped businesses small and large. However, the Chamber has been very concerned that mid-sized businesses could fall in a chasm where they receive no support. There are approximately 20,000 mid-sized firms that employ close to 40 million workers. Many of these businesses may be too large for the PPP and too small to enter the private debt markets. The Main Street Lending Program will help these firms access the funds necessary to tide them over as the economy slowly reopens. During reopening, initial demand may be sluggish, and it may take time for supply chains to be reactivated. We appreciate the efforts of the Treasury Department and Federal Reserve to get this financial support up and running.

This is a new and unique use of 13(3) powers. While we would have liked this program in operation sooner, it was more important to get the terms of the facility finalized so that there could be clear rules of the road. This will give borrowers and lenders the certainty they need to operate.

More action may be needed as well. We appreciate the attention that FSOC and FHFA have given to the issue of mortgage service providers that are extending forbearance to homeowners for mortgage payments. Future events may dictate if a 13(3) facility will be necessary for mortgage service providers. We are also exploring the potential of a 13(3) facility upon accounts receivable to deal with other industries such as utilities, which are providing forbearance for consumers but encountering their own financial difficulties.

These different efforts by Congress, the Administration, and Federal Reserve have been a necessary use of power to help the economy and American workers during an unprecedented emergency.

These actions should be targeted, tailored, and temporary. The economic shutdown and restart cannot be done by the flick of a switch. Businesses need to know the rules to understand how these programs work and how they must comply with the law. Strong oversight is also needed to ensure accountability for the use of taxpayer dollars. The Chamber took a similar position with TARP through the support of the TARP Transparency Act and firmly believe that those who break the laws should be punished. At the same time, oversight should not be politicized and used to name and shame companies. Businesses that have been deemed eligible by Congress for these programs should not be targeted because they happen to operate in particular industries. This goes against the intent of the CARES Act and will force businesses to walk away. This will harm workers and make the recovery longer and more difficult to achieve.

Thank you for the time today, and I look forward to your questions.

Chairman CRAPO. Thank you very much, Mr. Quaadman.

Dr. Holtz-Eakin.

**STATEMENT OF DOUGLAS HOLTZ-EAKIN, PRESIDENT, AMERICAN ACTION FORUM**

Mr. HOLTZ-EAKIN. Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the privilege of being here today to testify on Title IV of the CARES Act. Let me make several points briefly, and then I look forward to answering your questions.

Point number one is this is a historically dramatic downturn. In the past 2 months, we have seen, for example, 6 million Americans file claims for unemployment insurance in a single week. That is ten times larger than the previous high back in the Great Recession. We have seen 20 million Americans lose their jobs in the month of April—again, ten times larger than the previous high back in the demobilization after World War II. We saw the unemployment rate jump by over 10 percentage points in April—again, ten times higher than the previous single monthly increase. And the Congressional Budget Office anticipates that in the second quarter of 2020, the U.S. economy will shrink by 11 percent. In the worst year of the Great Depression, 1932, the economy shrunk by 12 percent.

Unlike the Great Depression, however, policymakers have acted quickly and dramatically to offset this downturn. When we saw a massive liquidity crunch hit financial markets, the Federal Reserve stepped in quickly, lowering its policy rate to zero percent, pledging an open-ended, unlimited amount of liquidity, and then reopening lending facilities for commercial paper, primary dealers, and money markets to restore the functioning of financial markets quite effectively and to prevent what was a serious Main Street crisis from turning into a financial crisis. And the Congress passed the CARES Act, a fiscal policy of unprecedented size, done at remarkable speed, and I believe Congress is to be congratulated for how quickly it acted and the scale on which it approached the crisis.

My second point is that while much of the CARES Act has supported the economy, the Title IV lending is essentially missing in

action. We have seen the CARES Act provide checks to individuals and families in the United States. It established the pandemic unemployment insurance, and those aspects of the CARES Act have produced a great amount of support. In a report that came out last week, we saw that personal income in April rose by $2.1 trillion at an annual rate, and $3 trillion of that was Government social benefits. This is the dramatic impact of the CARES Act on household finances. It was sufficient that the saving rate went up to 33 percent. Households have money and they are putting it away for the months to come.

We have seen the PPP, the Paycheck Protection Program, provide dramatic support for the economy. The PPP has many flaws, and my understanding is the Senate is about to address some of that. But despite its flaws, it managed to get over $500 billion out the door during the month of April, the single worst month in the history of the U.S. economy.

At the same time, Title IV established all sorts of potential lending facilities: the Primary Market for Corporate Credit, the Secondary Market for Corporate Credit, Term Asset Backed Securities; and, importantly, the Main Street Lending Program for those smaller and mid-sized companies that may not have direct access to commercial paper and other borrowing mechanisms; and the Municipal Liquidity Facility for strapped State and local governments.

While the CARES Act provided about $500 billion for these activities, essentially none of that has gone out the door, the publicly available data suggests less than 1 percent. It is puzzling to me that a Federal Reserve that could act so quickly and on such a large scale in the face of a liquidity crunch and a Treasury which could combine with the SBA to provide the PPP quickly and on a large scale could not in 2 months provide any support for these mid-sized companies. Survey data would suggest that the typical mid-sized company has about 2 months' worth of cash, at which point they will be threatened with closing the doors. We are at that point now, and I would urge the Treasury and the Congress to urge the Treasury to get together and provide more support for this part of the economy. This is, as Dr. Quaadman mentioned, a big employer, and I am worried that we are losing those mid-sized businesses because the facilities are not available and the terms at which they will be offered will be unattractive.

Thank you. I look forward to answering your questions.

Chairman CRAPO. Thank you, Dr. Holtz-Eakin.

Dr. Shierholz.

**STATEMENT OF HEIDI SHIERHOLZ, SENIOR ECONOMIST AND DIRECTOR OF POLICY, ECONOMIC POLICY INSTITUTE**

Ms. SHIERHOLZ. Chair Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to testify today.

Many concerns have been raised about Title IV, for example, the egregious lack of conditions that would link loans to keeping people on payroll. This should be corrected and accompanied by great levels of transparency and oversight. But, in my view the biggest problem with these lending programs is that they are loans, not

grants. In an economy where nonessential activity has been basically shut down for an extended period, it is not illiquidity that is often the threat. It is bankruptcy. Further, households will face huge challenges just meeting basic needs during this period, and having a large tranche of aid that does nothing to directly alleviate their suffering or to keep them from needing to slash their spending, making the recession worse and the recovery weaker, is a huge missed opportunity. Most destructively, the $454 billion in Title IV that is solely for ensuring the Fed against losses in the event borrowers default on their loans and which likely will not even be spent because the Fed will likely see gains not losses on these loans, that money may very well have convinced many policymakers and the public that substantial aid is being provided, and this could be a disaster. If people are convinced that the Fed can handle the emergency response and, as a result, a further massive fiscal stimulus does not happen, we are virtually guaranteed to face an extended period of extremely weak growth and high unemployment.

The official unemployment rate was 14.7 percent in mid-April when the survey was taken. That does not come close to reflecting all COVID-related job losses. If all workers who are out of work as a result of the virus had shown up as unemployed in the data, the unemployment rate would have been 23.5 percent in April instead of 14.7 percent, and since that survey was taken, another roughly 18 million workers have applied for unemployment benefits.

Typical forecasts that, by the way, bake in additional fiscal aid, including direct aid to State and local governments, these typical forecasts predict that the official unemployment rate will be around 25 percent in June, that it will still be in double digits at the end of 2020, and that it will be around 8 percent at the end of 2021. And as a reminder, 8 percent is really high, the highest the unemployment rate ever got in either the early 1990s or the early 2000s recession was 7.8 percent.

The most important provisions to help generate a rapid recovery is aid to State and local governments which are facing revenue shortfalls as large as $1 trillion in coming years. Loans they have to pay back in 3 years are not going to cut it. Because of their balanced budget requirements, if they do not get direct fiscal aid, they will have no choice but to slash spending and lay workers off, and we know how bad this will be because we just lived through it. The lack of sufficient aid to State and local governments in the aftermath of the Great Recession led to State and local austerity that delayed the recovery from the Great Recession by over 4 years. If direct Federal relief closes the $1 trillion State and local revenue shortfall, it will save over 5 million jobs by the end of 2021, and without that aid those jobs will be lost.

It is also crucial to extend the expansions of unemployment insurance that were part of the CARES Act, particularly the $600 per week in UI payments. Importantly, first, it is useful to remember that regular UI benefits replace a maximum of half of prior earnings, and a huge share of recipients receive much less than half given extremely low caps. So as a result, the extra $600 has been by far the most effective part of our economic policy response to the corona shock so far. It has meant that workers who earned

less than the average worker before the crisis are receiving benefits that are higher than 100 percent of their prior wage. But, in fact, for the purposes of generating a rapid macroeconomic recovery, the more money getting into the pockets of low- and middle-wage workers, the better. These workers are likely to be in households that will have little choice but to quickly spend any unemployment benefits they get on necessities, boosting the economy.

Further, at the end of July, when the extra $600 per week is set to expire, the official unemployment rate will likely be well over 20 percent, and the unemployment rate that takes into account everyone who is out of work as a result of the virus will be even higher. It would be terrible policy on economic and humanitarian grounds to use cutbacks to UI benefits that make them too stingy to live on as a cudgel to try to get people to find a job quickly when the labor market is that weak.

If the Federal Government provides sufficient direct fiscal aid during this crisis so that individuals and State and local governments are not forced to make drastic cuts to their spending, then confidence and demand will be high when the economy reopens, and we could get a relatively robust bounce-back. But if the Federal Government does not provide fiscal relief, the country will face an extended period of weak growth and high unemployment that will do sweeping and unrelenting damage to the economy and to the people and businesses in it.

Thank you.

Chairman CRAPO. Thank you very much.

I will ask my first question to you, Mr. Quaadman. What type of demand is expected among businesses for loans under the Main Street Lending Facility?

Mr. QUAADMAN. Thank you very much, Mr. Chairman. From discussions that we have had with many mid-sized firms, we expect that there will be much demand for these loans. There has been some muted enthusiasm for this because of the lack of clear rules, and, clearly, the Fed has come out with a term sheet, an additional term sheet in the last week. So as those parameters are becoming more clear, we do expect that there is going to be more demand for these loans. And I think it is important to remember as well, while we have been dealing with this revenue cliff for the past 60 or so days, we are still going to go through a phased reopening of the economy so that there is going to be this need for companies to work their way through this financial situation.

Chairman CRAPO. All right. Thank you very much.

Dr. Holtz-Eakin, do you believe that there are additional improvements or is sufficient clarity already provided by the Fed with regard to the Main Street Facility?

Mr. HOLTZ-EAKIN. I still believe that the Main Street Facility is too stringent and that when the Congress passed the CARES Act, it essentially said to the Treasury be prepared to lose half a trillion dollars on behalf of the private sector and its workers so that we can support this economy. And while Secretary Mnuchin has testified that he is willing to take risks and lose money, it looks like they are still running these facilities to break even. And so I would take those term sheets and make them more generous. And why not have fixed interest rates instead of variable interest rates? Why

not put $100 billion into Main Street? Congress has put the money in the Exchange Stabilization Fund. That will have greater leverage, get to more mid-sized companies. And why have all the principal amortizing in an even fashion? Put it in a balloon at the end and let the terms be longer. There is no reason not to do any of those things. So to focus on the budgetary impact at the expense of the economy is the most fundamental error we could make at this moment, and I think we are making it.

Chairman CRAPO. All right. Thank you.

Dr. Shierholz, you indicated that you felt that with regard to State and local government, if I understood you right, really a loan is not the most effective way to assist them. As you know, Congress is considering additional support for State and local governments. You are indicating, am I correct, that that should come in the form of grants?

Ms. SHIERHOLZ. Absolutely. I think that what State and local governments are facing now is a huge decline in their tax revenue. That is still going to be there in years to come. They are not going to—in order to keep them from becoming a huge drag on the recovery, we need to make sure that those budget shortfalls are filled in. It is one of the most important things we can do to generate a robust recovery.

Chairman CRAPO. All right. Thank you.

I am moving around quite a bit here, but I want to get to several other things in my minute and a half that is left. I will go to Dr. Holtz-Eakin with regard to the Municipal Liquidity Facility. I have said many times that the threshold, which has been reduced now to 250,000, still does not even cover a single county or city in Idaho. The response to that is that they can access these resources through the States. Do you believe that the way that the Municipal Facility is set up will actually facilitate the kind of revenue getting—well, I would say the kind of assets getting to the States, the smaller cities and counties across the country?

Mr. HOLTZ-EAKIN. Well, I have great confidence the States could take advantage of this facility, and I hope they do. That has certainly been the strategy for replacing revenue used in the business sector, and it will limit the amount that Congress has to do directly. But I have no confidence that that will remedy the problems that the smaller municipalities or counties might be having, and in the absence of a guarantee of that sort, I think you need to be concerned about the facility threshold at this time.

Chairman CRAPO. All right. Thank you. And with regard to—I will just kind of wrap up with a comment, really. Mr. Holtz-Eakin, you had indicated you think that really one of the biggest issues here is that the 13(3) facilities are still not in action.

Mr. HOLTZ-EAKIN. Right.

Chairman CRAPO. And I just want to kind of go over some statistics here. The PPP program, as I understand it, has put out something in the neighborhood of $530 billion, over 4 million loans. The Congressional Budget Office put the price tag for the checks to individuals—which has not all come out yet, but much of it has—at $293 billion and $268 billion for unemployment insurance. So we are seeing in those areas that the Government was able to move

quickly. And your point primarily is that we need to engage and get implemented the 13(3) facilities as quickly as possible.

Mr. HOLTZ-EAKIN. Yes. I find it very puzzling that they have not done this to date. It has been 2 months. I know they say that announcements have had important impacts on rates, but there is nothing less interesting than a market rate at which no one transacts.

Chairman CRAPO. Understood.

Mr. HOLTZ-EAKIN. It impacts the people.

Chairman CRAPO. All right. Senator Brown.

Senator BROWN. Thank you, Mr. Chair.

Ms. Shierholz, there is a stark difference in our country, as we know, between black Americans and white Americans in almost every aspect of life: police brutality, our justice system, health outcomes. Black people are dying at a disproportionately higher rate than white people, before the pandemic, during the pandemic. Americans are angry about these disparities, and we should be angry about the senseless killings of George Floyd, of Breonna Taylor, of Ahmaud Arbery, and so many others. We are outraged that armed white protesters are allowed to storm State capitols while peaceful black protesters are met with tear gas. I assume all of you on this panel noticed that, right?

These very different realities extend to jobs and income as well. Black and Latinx workers face higher unemployment rates than white workers. Women across the board, including black and brown women, have higher employment rates than men. We know all those things.

Dr. Shierholz, how do economic crises like this one affect different racial groups? What do you do to change these outcomes?

Ms. SHIERHOLZ. Thank you for that question, Senator. So recessions hit black and Latinx men and women harder, with higher job loss and greater income decline. One key reason is that black and Latinx men and women are concentrated in different jobs than white men and women, and the reason for that is systemic racism. It is due in part to discrimination in hiring and promotions, but that is not the only thing. It is also due to systemic differences in access to educational experiences and credentials that dictate what kind of jobs people can get, and those differences in access are rooted in structural racism. It is also due to the fact that even aside from educational differences, we still have a lot of occupational segregation in this country, and that is rooted in structural racism. And it is due to black and Latinx workers not having access to job-finding networks that white workers have access to and on and on and on.

Senator BROWN. Thank you.

Mr. Quaadman and Dr. Holtz-Eakin, following up on that, I know you see, both of you recognize the disparity between black and white unemployment. Is it because of structural and systemic racism? Just give me a yes or no, if you would. Dr. Holtz-Eakin, you first. Is this disparity between black and white employment because of structural and systemic racism?

Mr. HOLTZ-EAKIN. It is primarily education. That is the source of the educational differences, so then your answer is yes.

Senator BROWN. Mr. Quaadman, yes or no?

Mr. QUAADMAN. Senator Brown, at the Chamber we recognize that the inequality and injustice in the African American community is real and stand in solidarity against racism and advocate for diversity and equity and inclusion in our society.

Senator BROWN. Thank you. I am glad you at least acknowledge the structural barriers African Americans and people of color face. I think also that statement you just gave notwithstanding, Mr. Quaadman, I think you need to ask yourselves how your organizations, the companies you represent, the antiworker policies you promote are perpetuating systemic racism. And I would go here, Mr. Quaadman: There is so much corporate America must do to combat systemic racism. Millions of mostly black and brown workers risk their safety during this pandemic. We know who most of them—who many, many of the essential workers are. They are more likely to be women than men. They are disproportionately people of color. They are working for companies that did not pay them nearly enough to begin with. These same companies now, Mr. Quaadman, are spending millions on ad campaigns to thank workers and assure them that, as they like to say in these ads, "We are all in this together." Well, saying "thank you" is not enough. If we are really all in this together, will the U.S. Chamber take the position that its member companies must permanently and substantially increase the pay of all workers?

Mr. QUAADMAN. Thank you very much for that question, Senator Brown. Back in October, the Chamber launched Project Growth and Opportunity where we wanted to highlight social problems and how companies are actually trying to solve those social problems on their own.

Additionally, in April, in conjunction with Rick Wade, who heads our diversity programs at the Chamber, we started a dialogue with our financial services firms to ensure that they were trying—that they were providing resources to minority businesses during the pandemic, and we supported the CDFI set-asides as well.

Additionally, with many of the guides——

Senator BROWN. I am sorry to interrupt. I appreciate those efforts. But it is not showing up in paychecks, and you know that. These workers have always been essential to your companies, not just now. They are the ones who make you successful. You know many of these workers are eligible for Medicaid and SNAP benefits, for housing vouchers, and the earned income tax credit and child tax credit. And it is fundamentally that your companies simply do not pay.

A last question. Ms. Shierholz, many of these companies receiving billions in taxpayer monies to stay afloat, they lay off workers; they force them to risk their safety at work for too little pay. Again, we know many of these are black and brown workers. What is the best way to ensure they stay afloat? From an economics perspective, does it make sense that some of the most essential workers are the lowest paid?

Ms. SHIERHOLZ. Right, the essential role played by so many low-wage workers and so many black and brown workers in grocery stores, utilities, care work, on and on, often without adequate personal protective equipment and without a union and voice on the job is increasingly highlighting the glaring inequalities and ineffi-

ciencies in the U.S. labor market. These workers need safe workplaces and protective equipment, premium pay, and the opportunity to have a union and a voice on the job. And then I think it is also useful to note that from a public health perspective, we all benefit if essential workers have access to paid sick leave, safe workplaces, an ability to point out and correct unsafe conditions without fear of retaliation.

Senator BROWN. Thank you.

Mr. Chairman, thank you.

Chairman CRAPO. Thank you.

Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman.

Just a quick follow-up to this discussion about the disparity in economic outcomes. Dr. Holtz-Eakin, if I recall correctly, suggested that the biggest explanation is probably unequal educational opportunities, which no doubt that is probably the single biggest contributing factor. Of course, throughout most of our country, if you are wealthy, you get the luxury of choosing the school that your children attend, and so since a good education for kids is so important to virtually all parents, wealthy and even some upper-middle-income families, they will make that choice, and they will send their kids to a school that will get a good outcome. But we systematically deny that freedom to low-income people, and we simply trap them in the school that corresponds to their zip code without giving them the opportunity to choose a school that might work better, might give them more opportunities. So when we discuss the inequity or the disparity in economic outcomes, I hope we will keep in mind that there is a mechanism that could create much more opportunity especially for low-income families.

I also think we ought to keep in mind just how terrific it would be if we can get through this and get back to the way our economy was just a few short months ago when we had the strongest economy of my lifetime—I am 58 years old—but booming economic growth, record low unemployment, record low unemployment for minority communities, wage growth accelerating and accelerating fastest for the lowest-income Americans, income inequality diminishing. It was really a terrific economy, and then along came this pandemic and the corresponding shutdowns which did so much damage. We need to recover from this as quickly as we can and get back to the tremendous circumstances we had that were improving rapidly.

I would like to touch on something that has been touched on peripherally, but I think it is worth underscoring. When we passed this legislation and authorized these 13(3) facilities, one of the things we hoped for was that maybe the mere existence of these programs, the mere authorization for the Fed to stand up facilities to buy corporate bonds, for instance, maybe that would help to free up the capital markets and allow capital to flow in the private markets. And this is so important because, of course, large companies are huge employers. Across America they employ tens of millions of people. And we did not want a short liquidity squeeze to cause them to go under and prevent those jobs from ever coming back.

What I find remarkable is the extent to which the capital markets responded, and maybe Dr. Holtz-Eakin would comment on

this, but my understanding is while we were going through the severest economic retraction since the Great Depression, a full-blown pandemic, an unprecedented shutdown of our economy, and literally locking people in their homes, despite all of that, our capital markets responded with record issuance of corporate debt. And large companies—and that is who we are talking about here, large companies—were able to access the capital markets at a rate about twice, two times, what they did last year, raising over $1 trillion and enabling themselves to shore up their balance sheets so that they could get through this time, and if they have, hopefully keep as many people employed as they possibly can, and to the extent they could not, bring them back, and all of this with the Fed doing almost nothing in terms of actual intervention in the market, my understanding is they have bought about $3 billion worth of corporate bonds through ETFs, and these other facilities have not yet been fully funded.

Now, the Main Street Lending Program, that is a different category, a different size company, a different program. But would you just comment on the success of restoring confidence in our markets and what has happened? And it is not just the top credit quality. My understanding is this is pretty much across the credit quality spectrum.

Mr. HOLTZ-EAKIN. So as I mentioned briefly in my opening, the Fed has done an outstanding job of keeping this shutdown of the real economy from turning into a financial crisis. It moved aggressively with open-ended promises of liquidity. It set up facilities on its own authorities, which helped enormously. And the corporate credit facilities, the announcement effect there is a real thing that has been beneficial, and you are right about the numbers. Private corporations have accessed credit markets to a remarkable degree in the midst of this crisis, and the benefit accrues to American workers who did not get laid off or will have the ability to come back quickly. I think that is all tremendous.

My point is simply that stopping there and not moving to the mid-sized companies with the Main Street Program is a mystifying decision.

Senator TOOMEY. Yeah, so I think that is a really important point, and I urge the Fed and the Treasury to move as quickly as they can on the Main Street Lending Program, and I share some of your concerns that the terms may be so onerous that we might not get the take-up that we are hoping for. In fairness, I think starting this program from scratch is a big undertaking, and it does take a little while to pull this all together. But I think the next question that is a really important one and I think we will start to find out very soon is whether the terms are such that borrowers will take up, those borrowers who need the money.

I have exceeded my time limit, so I apologize, Mr. Chairman, but thank you very much.

Chairman CRAPO. Thank you.

Senator Reed? Have you got your mute button on, Senator Reed?

Senator REED. Can you hear me now?

Chairman CRAPO. Yes.

Senator REED. Thank you, Mr. Chairman. My technological expertise once again becomes obvious to all.

Dr. Holtz-Eakin, thank you for your testimony and for your great work over time. Dr. Shierholz made a very compelling case for support for State and local governments, and I have been supportive of that since the very initial discussions with the CARES Act, and I also have legislation pending. Twenty million jobs, that is how many State and local government people are employed. About 8.5 percent of our GDP is State and local government. If we do not provide them additional grants, would that be a major miscue, a mistake in terms of recovery?

Mr. HOLTZ-EAKIN. Is this for me or for——

Senator REED. That is for you, Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. I am agnostic. I leave it to Congress to decide whether they should be grants or loans. But if we do not have a robust State and local sector, we will not get a robust recovery.

Senator REED. All right. And that I think is a function not only of simply putting the money and keeping people employed, but so much of our economic activity depends on things like building inspectors being able to inspect construction sites, health workers being able to do their jobs when they are essentially laid off, furloughed. Oh, by the way, the teachers taking children to school so that men and women, adults, can go to work, all of that, without it, would just cause a catastrophe.

Does that make sense to you, Doctor?

Mr. HOLTZ-EAKIN. That is a concern. One of the interesting things that came out last Friday in the April payroll income and expenditure report was that we have not seen a big decline in Government payrolls. It has been a private sector recession to date, and I think the key would be to make sure that it does not develop into one in the State and local arena.

Senator REED. Well, what is happening—and my State might be an example—we have a July 1st deadline for our budget. We have a constitutional amendment it has to be balanced. They are going to have to make some excruciating decisions, and the impact will be significant and huge.

Dr. Shierholz, I know you want to comment.

Ms. SHIERHOLZ. I just wanted to say that we have already seen a loss of nearly 1 million State and local jobs. By mid-April we had already lost more State and local jobs than were lost in the entire Great Recession, which actually—I did not actually think that those losses would come so early, but the fact that they are coming so early does, you know, underscore how important that is.

Senator REED. Dr. Shierholz, in terms of this local funding, it is critical to so many other aspects of the economy, as I suggested before. Without schools, parents will be inhibited to go back to work because they have no place to care for their children. Without inspectors, you cannot get projects done. So there will be a multiplier effect in terms of the diminishment of State and local payrolls.

Ms. SHIERHOLZ. Yeah, I think that is important to note when you think of, yes, there will be a ton of State and local government workers laid off, but you think of all of the services that they provide, the impact that that will have, and then the fact that those workers are not getting income anymore means all of the stuff that they buy, people will not be needed to produce that stuff because they will not be able to buy it anymore. So we just have this really

vicious cycle, and that is why State and local austerity is so damaging to the recovery.

Senator REED. Let me make another point and change the subject very briefly. Dr. Shierholz, we are looking at these unemployment compensation benefits that will expire. When they expire, we are now looking at a situation where people will become desperate, literally. And no one anticipates a fast, rapid recovery to 5 percent unemployment or 3 percent, or 3.5 percent unemployment, our record unemployment. In fact, they are looking at long-term sustained unemployment of significant levels. Without extending unemployment benefits that are not tied to a deadline, which I think is wrong, but tied to the actual state of the economy, i.e., a certain percentage of unemployment, we are going to find ourselves in a deep, deep hole. Is that accurate?

Ms. SHIERHOLZ. Yes, Senator, I am glad you brought that up. There is just a huge amount of uncertainty around how the economic impact of this will unfold. So assigning arbitrary end dates to provides to sustain the economy like unemployment insurance just makes no sense when the process could be handled automatically by having provisions phase out as, for example, the unemployment rate declines. I think your key point is that automatic stabilizers—using automatic stabilizers would not be any more expensive than the cumulative cost of multiple extensions in the program, but it would prevent incredibly destructive lapses in critical programs while Congress is negotiating extensions, and having automatic stabilizers would alleviate the terribly corrosive uncertainty by giving businesses and households confidence around budgeting and planning. It is just good governance.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Cotton? Is Senator Cotton on?

[No response.]

Chairman CRAPO. Senator Tillis, are you on?

[No response.]

Chairman CRAPO. Senator McSally, are you on?

[No response.]

Chairman CRAPO. Senator Moran?

[No response.]

Chairman CRAPO. I am going to go to Senator Menendez. I see you.

Senator MENENDEZ. Thank you, Mr. Chairman. Thank you to all the witnesses.

You know, the last jobs report indicated that the State and local governments shed more jobs in 1 month than the entirety of the Great Recession. And projections released by Moody's revealed that every State in the Nation is already or will soon face historic budget shortfalls. And if Congress does not act soon to help State and local governments, they are going to have to cut life-saving services, lay off or furlough more teachers, public safety, emergency health personnel. It would be the height of irony that those who we need the most in the midst of a pandemic would ultimately be laid off.

So, Dr. Shierholz and Dr. Holtz-Eakin, can you tell us, in the last recession what were the consequences of a drag on the economy by State and municipal layoffs and what will we be facing again in the absence of any assistance to State and local governments?

Mr. HOLTZ-EAKIN. Go ahead.

Ms. SHIERHOLZ. Go ahead.

Mr. HOLTZ-EAKIN. No, no. That is fine.

Ms. SHIERHOLZ. I will go quickly and then turn it over. So we do have good evidence from the aftermath of the Great Recession. The Federal Government did not provide enough aid, and simple calculations—and I can forward these to you—show that the State and local austerity in the aftermath of the Great Recession delayed the recovery by over 4 years. And we will be facing that and more in the aftermath of this recession because budget shortfalls are so much more dramatic right now.

Mr. HOLTZ-EAKIN. So I think in this moment there are some things that are obvious. One, there is an enormous amount of pandemic-related expense that the State and local governments have incurred, and it is appropriate for the taxpayer to pick that up in whole or in part. It is serving the entire Nation.

I think it is also clear that there are some structural problems in some State and local budgets that are not a result of the pandemic and not really something you should be addressing at the moment.

And then there is the really hard question, the subject of this hearing: How much help can be provided quickly through the Municipal Liquidity Facility and how much will you have to end up providing through the appropriations process in the Congress? And I do not know the answer to that, but I am troubled by the fact that we do not have what appears to be a live option in the Municipal Liquidity Facility right now.

Senator MENENDEZ. I agree. Mr. Quaadman, let me stay on this subject. What is the impact on businesses and communities if States, cities, and counties have to cut investments in infrastructure, public health, public safety, or raise sales or income taxes to pay for essential services?

Mr. QUAADMAN. Senator, thank you for that question. It creates a tremendous negative impact on businesses, particularly small businesses that depend on those essential services. Also, the delay of infrastructure projects, which are usually the first to go, are also going to be harmful as well to workers and firms also.

Additionally, as you also allude to, if you were to have a large tax increase in the middle of the recession, as State and local governments would be forced to do, that is about the last thing we need if we are going to try and go on the road to recovery.

Senator MENENDEZ. Thank you.

Dr. Holtz-Eakin, in a podcast last week, you suggested—and I think you have talked a little bit about that here—that the Fed's Municipal Liquidity Facility has not been particularly successful so far possibly because the terms are too tight. Currently, any loans under the Municipal Liquidity Facility would have to be paid back within 3 years. Wouldn't you agree that just like in the Great Recession, the fiscal pressures on States and localities are probably going to still be there 3 years from now? Wouldn't a longer term

make more economic sense? Why would you not ultimately offer the States and localities the same type of conditions you are offering the private sector?

Mr. HOLTZ-EAKIN. I think the terms on the Main Street Lending Program and the Municipal Liquidity Facility should have longer terms. I do not see why they are not 10 years. There is a great opportunity here to be helpful, and there is no reason to rush the repayment in any way.

Senator MENENDEZ. And at the end of the day, you will make money. Maybe not a lot, but you will make some money.

Mr. HOLTZ-EAKIN. You know, in this moment I do not think that is the top consideration. I am afraid they are thinking that way.

Senator MENENDEZ. I agree.

Mr. HOLTZ-EAKIN. And so I worry about the terms from that perspective.

Senator MENENDEZ. Do you think that the rates that exist—I am concerned that the price of credit the Fed is offering to the State and local governments would be—they are offering more expensive loans to some investment grade municipalities than it would to highly indebted private companies through the Main Street Lending Program. Do you think these rates are going to discourage State and local governments from using the facility?

Mr. HOLTZ-EAKIN. I think that is a concern, and, you know, in some cases, if you look at the terms on the Main Street Program, they are variable rates. That is a kind of uncertainty that we do not need to incur at this point. They could offer fixed-rate loans to these individuals, and I think they should.

Senator MENENDEZ. Well, bipartisan legislation I have with Senator Cassidy and others that I think we need to deal with, $500 billion for States and municipalities divided in ways that ultimately respond to the actual crisis at hand. Thank you very much. I have some other questions I will submit for the record.

Chairman CRAPO. Thank you.

Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman. Apologies for the technical difficulties earlier.

The Federal response to the Wuhan coronavirus has obviously been extraordinarily costly, and I think we all agree that vigorous oversight of these expenditures that we have undertaken are necessary and proper, and part of that oversight responsibility needs to be in making sure that money is used exclusively on our economic recovery and trying to save as many jobs and as many businesses as possible.

Mr. Quaadman, in your testimony you warned against politicizing the oversight process, not to push policy preferences that are unrelated to or distract from our core mission of ensuring a strong and steady recovery. I hope there is general agreement that every dollar that we spend should be directed toward reducing joblessness and combating the virus. But of the last two pieces of legislation that the House of Representatives passed, there is quite a bit of grab bag policies in there, one banning photo identification for mail-in ballots. Mr. Quaadman, do you view banning photo identification for mail-in ballots to be central and vital to the economic recovery from this coronavirus?

Mr. QUAADMAN. Thank you very much, Senator Cotton, for that question. I think it is important to remember here that this economic downturn is a result of Government orders. This is not part of the business cycle; this is not part of a market failure. So, therefore, while I said we agree that there should be strong oversight, if there are going to be industries that are going to be targeted because they are not liked, that should not be—if they are eligible as decided by law. Similarly, we also believe that once it becomes a game of "gotcha," companies are actually going to stay away from these facilities, from these lending programs, and it is actually going to frustrate the intent of the CARES Act, and it is going to harm workers and make it longer for the economy to recover.

Senator COTTON. I agree with those points, and I will come to an example of that in a moment. But it sounds like you do not think that banning photo identification for mail-in ballots is vital to our economic recovery.

Mr. QUAADMAN. Not in this context. That should be taken up in another context.

Senator COTTON. Ms. Shierholz, is banning photo identification for mail-in ballots vital and essential to economic recovery?

Ms. SHIERHOLZ. What we need to ensure right now is that people have access to voting, so we need to be extremely open about what we can do in this very difficult time to make sure that people—that our democracy is functioning and people are able to vote.

Senator COTTON. OK. I will take that as a no.

Mr. Quaadman, you recommend disfavored industries and using this crisis to try to push pet policies. One requirement of the House bill was going to mandate that all domestic passenger flights be carbon neutral within 5 years. Do you think that is vital to our economic recovery, if it is even technologically feasible?

Mr. QUAADMAN. Not at this time, and even airlines that have talked about going carbon neutral talked about it in a much longer time length. In fact, what we should be concentrated on is how we are going to have a viable airline industry and air cargo industry moving forward and how a smaller airline and cargo industry can be in place and be able to grow from that point on.

Senator COTTON. Thanks. What about you, Mr. Holtz-Eakin? Is it essential to our economic recovery from this pandemic that we mandate all domestic flights be carbon neutral, whatever that even means?

Mr. HOLTZ-EAKIN. No, but I would encourage the Congress to keep a close eye on the supply chain and the adequacy of the supply chain going forward.

Senator COTTON. Of course. That is vital.

And, Ms. Shierholz, is it vital to mandate that all domestic flights be carbon neutral in the next 5 years?

Ms. SHIERHOLZ. What we need to do in the aftermath of this is make sure that we are making the investments that will set things up so that the climate crisis—we are getting a test run—right?—on what the climate crisis could look like with this crisis we are facing now. And so putting things in place, whether or not it is right now or in the longer run, to make sure that we are able, we are ready to fight future crises is absolutely the right thing.

Senator COTTON. Thank you. So I will just conclude by saying I am pleased that the Senate so far has opposed some of the most extraneous, unrelated policies proposed by the House of Representatives. As we conduct oversight on the CARES Act and as we consider future legislation, I think it is vital that we continue to focus on counteracting this virus, getting people back to work, getting businesses open again, and getting our economy back on its feet. And, obviously, this pandemic has had a far-reaching impact. I see Senator Cortez Masto there. We all know what this has done to Las Vegas and the hospitality industry in all of our States. We know what it has done to the defense industry and shutting down small and mid-sized suppliers for our large defense contractors. The ramifications and the impact of this virus are far-reaching, and we are still learning some of the economic impact that it has had. I just hope that we keep our focus on that impact and that we do not try to pursue unrelated, extraneous policies that we all might favor in both parties and within our single policies, that we focus on getting people back to work and businesses open and getting the economy back on its feet.

Thank you.

Chairman CRAPO. Thank you.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman. And I apologize for the lack of video, but that is probably better for you guys.

I just want to start by associating myself with Ranking Member Brown's comments at the beginning here. Look, I was 13 years old when the Kent State shootings went on, and I think we are heading down that road. And I never want to tell my colleagues what to do, but we need bipartisan pushback about what the President of the United States has been doing the last few days and, quite frankly, even longer than that, from telling folks to drink Clorox to taking IGs out of our ability to have independent inspections to now threatening military action against civilians. This is ridiculous.

That aside, I want to get to our panelists, and I want to thank them for being here today. I am worried, as I hear most of you, quite frankly, that small businesses in Montana and across this country are not getting what they need to deal with this COVID–19 crisis, from Treasury in particular.

Would you guys agree with that, number one? And if you do agree with that, what do you think Congress should do to set things right for small businesses? Go ahead.

Mr. QUAADMAN. Senator Tester, this is Tom Quaadman with the U.S. Chamber. First off, I think the Phillips–Roy legislation that passed the House is now coming over to the Senate provides some relief—provides some ability to change some of the parameters that are making it more difficult for small businesses to comply with some of the forgiveness portions of the loan. The other is that the PPP program has undergone many different changes where there have been a continual number of FAQs that have come out that have shifted the goalposts. So, therefore, we also think that small businesses should be in compliance at the time when they have got their loan as well. So I think those are some of the things where we do need some clarity.

Senator TESTER. Do other folks want to comment on that?

Ms. SHIERHOLZ. I can jump in quickly. I just think we cannot overlook the fact that things like aid to State and local governments, extending the expansions of unemployment insurance, those things are incredibly important for small businesses because they will maintain people's spending. People will not be able to spend in small businesses if they do not have their incomes. So that kind of general stimulus is incredibly important to all businesses.

Senator TESTER. Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. I think this is a really important issue. The crisis was a rolling set of liquidity crunches that went through vast swaths of the economy, and the small and mid-sized businesses simply do not have the cash to survive this, often do not have access to corporate commercial markets, and this is the lifeline that will keep them from closing their doors, keep their workers from being disconnected from their employment. And both of those things the economic infrastructure make the recovery harder. And so I think the Treasury should be moving with tremendous speed to provide access to these funds at very generous terms, and I would encourage you to call, write, or change the laws to have that happen.

Senator TESTER. Thank you. I thank all three of you. I have got about a minute and 40 seconds left. I am going to ask two questions, and I want you to be very concise, and we can get through all three of you. It looks like there is going to be another economic package coming. How big do you think that package should be? And what are your top three priorities of any package that we are going to pass? I will start with you, Mr. Quaadman.

Mr. QUAADMAN. Thank you, Senator Tester. We are actually putting together our CARES Act 2.0 letter now. We think that additional bridge financing is something that should be important, and other issues, including child care, which are important reopening issues for companies should be addressed, and we will share that letter with you in the next several days.

Senator TESTER. Do you have an overall size of a package that you think will be necessary to help keep this economy, as crippled as it is, moving forward?

Mr. QUAADMAN. We are still looking at that because the needs of the business community and the economy today are different than when the CARES Act passed back in March and April.

Senator TESTER. Correct. Moving forward, I would love to get your input on that. If you would put that to us, that would be good.

Heidi, would you like to speak to that?

Ms. SHIERHOLZ. Sure. So I think the key, the most important thing is direct fiscal aid to State and local governments, expansions of unemployment—or continuation of the unemployment insurance expansions in the CARES Act, and the key thing is we need all of those provisions tied to economic conditions so they do not expire at arbitrary dates. That actually makes it kind of tricky to know exactly how much it will cost, but I think the size of the House bill is on the order that we are looking for, but we need to be prepared to do more if the economy remains weak.

Senator TESTER. Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. I would encourage you not to think of it in terms of dollar size but in terms of problems that must be addressed. And people will reopen this economy; Governments will not. And they will reopen it when they feel safe. That means workers must be able to work safely in the workplaces, and reconfiguring workshop will be expensive. We should focus on helping businesses do that. Businesses have concerns about liability that are legitimate, and you should be concerned about that. And let us make the environment one in which people can go to work successfully and businesses can operate safely. That is the key.

Senator TESTER. Thank you, panelists.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Tillis.

Senator TILLIS. Thank you, Mr. Chairman. Sorry I was not able to speak in turn. I am actually on two different committees, Judiciary and Banking. Thank you for holding this Committee.

Mr. Quaadman, I have a question actually maybe for you and for Mr. Holtz-Eakin, which really follows on what Senator Tester was just talking about. If you look at the CARES Act, can you give me a really concise stop, start, and continue sort of view of the CARES Act and what you would like to see in a follow-up package?

Mr. QUAADMAN. Thank you very much, Senator Tillis. As I said earlier, we do believe that some of the PPP guidelines should be changed with that. I also agree with Dr. Holtz-Eakin as well that some of the term sheets or some of the parameters around the Main Street Lending Program are going to make that more difficult. And we think that it should also be important for Congress possibly to set some policy parameters to help with that demand as well.

Senator TILLIS. Will that be outlined in the letter that you discussed with Senator Tester? Is that going to be outlined in the letter coming from the Chamber?

Mr. QUAADMAN. Yes, and with other communications as well, Senator Tillis.

Senator TILLIS. OK. Mr. Holtz-Eakin, your thoughts?

Mr. HOLTZ-EAKIN. I think continuing to provide liquidity to small and mid-sized businesses, PPP and the Main Street Lending Program as reconfigured. I think the biggest decision you face is how to transform the $600 Federal bonus, which made eminent sense when you wanted people to stay home and not work out of fear of transmitting the virus, and now with the desire to have more people working, it will be a big impediment to the success there. Our work says that 63 percent of workers would make more on unemployment insurance than they would going back to their job, so you need to maintain the purchasing power of households while providing work incentives, and that is a key decision that you face.

Senator TILLIS. I think the key to that is tailoring it to where we get it more into what we believe congressional intent was, was to try and keep the employees whole and not create this disincentive and potentially a braking factor on economic recovery or job recovery.

I have another question that really relates to other actions that we may take here. You know, the number of links in the global

supply chain that were in China are concerning to us in several areas. I think that it is right for us to take a look at supply chain resiliency, identify ways to incent businesses to maybe move some of that capacity back to the United States, or minimally to a more, let us say, predictable partner in the global supply chain. But I do think that if we are not careful, we could impose—instead of providing incentives or carrots, to take a look at reformulating supply chains. If we come in with a stick, we may find ourselves creating artificial deadlines and constraints on reformulating the supply chains that I think could have a very negative impact on job creation and prices.

Mr. Quaadman, have you and your members discussed this?

Mr. QUAADMAN. Yeah, thank you, Senator Tillis. In fact, companies were already reviewing their supply chains and seeing how they should be reoriented after the tensions with China last year. Frankly, to some degree the pandemic has actually stunted some of that because of the business shutdowns. So I think this is something that the business community is already looking at and agree with you that this should be done through the condition of market forces rather than a stick, as you said.

Senator TILLIS. I think it is very important to have your members, particularly those who are already looking at supply chain resiliency and future strategies, to make sure you are communicating to Congress the complexities and the kinds of timelines that you are looking at, because we have to keep in mind that just because we may be able to manufacture something here, it does not mean that everything that we use to source it and get it ready to be manufactured can be and will not be in the United States. So we have to be very mindful of our policy decisions that could impact and potentially disrupt supply chains, make them less reliable. And I think that that is something that you, manufacturers, and a lot of other organizations should weigh in on so that we get that right when we move forward with policy.

Mr. Holtz-Eakin, I see you shaking your head. Do you agree with that?

Mr. HOLTZ-EAKIN. I do. I am deeply concerned that strong edicts, for example, just move all capital out of China, will miss the point that if you face a risk, diversification is one part of the strategy dealing with it, and that if we want to have dedicated capacity, as, for example, we have done with national security and defense production, we should provide market incentives to produce it. And so have a richer R&D credit for those who do work in the U.S., provide greater—make things permanent, all those things make sense to me.

Senator TILLIS. Thank you. I have got other questions on the deficit and a number of other things that I will defer. Thank you, Mr. Chair.

Chairman CRAPO. Thank you.

Senator Warner? And you need to unmute.

Senator WARNER. I got it. One second.

Chairman CRAPO. You are good.

Senator WARNER. OK, great. Thank you, Mr. Chairman.

Let me get right at it since I lost a couple seconds there. First of all, I want to go back to some of the comments that Senator

Toomey made I tend to agree with around the Main Street Facility. I want to start with Dr. Holtz-Eakin. My sense is, as well intentioned as CARES was—we were very generous to the airline industry. We created traditional Fed tools, 13(3) for the commercial paper market for larger enterprises. Even with some of the design flaws in PPP, we should have clearly had a requirement to show economic loss. I think we are going to find a lot of companies that had no economic loss benefiting from that program. But, again, pretty darn well for small enterprises.

The mid-sized marketplace, though, these 500 to 10,000 employees, may not be public, we have created this cliff effect. And I share Senator Toomey's concerns about how long it is taking for Main Street to get out. I am very concerned that there is no take-up rate that will be not an indication of lack of need but potentially design flaws. We actually put into the legislation—and so far the Fed and Treasury have not acted on this—a requirement for a below-market lending facility for this middle area. And I know, you know, the Fed has appropriate concerns about protecting its resources, but, Dr. Holtz-Eakin, what would you say if you had to pick one or two or three design changes in Main Street that you think would help the program become more effective?

Mr. HOLTZ-EAKIN. So lower the minimum loan size from $500,000 to half that; extend the term from 4 years to, say, 10; do the amortization of principal over a longer period, put maybe a balloon at the end. You know, this is about not bleeding cash out of these firms. It is about providing them cash. And you could have fixed interest rates, as I mentioned earlier. There are a whole variety of the terms that I think could be modified to make it more attractive and should be modified. The Congress gave the Treasury an enormous amount of resources to make sure that the Fed is whole. I understand the Fed's concerns about being whole in this. They have their own obligations. But the resources are there, and this has to get—this can get done and should get done.

Senator WARNER. And I agree, and I have, you know, some sympathy for Secretary Mnuchin, that, you know, I think we want him to be able to have some of those Treasury dollars be at risk because that is going to mean the program is going to be more leaning in and leaning forward. But I hope—and he said this in testimony, but I hope we would see even more leaning in.

Dr. Shierholz——

Mr. HOLTZ-EAKIN. Sir, just one more thing quickly.

Senator WARNER. Yeah.

Mr. HOLTZ-EAKIN. You could have those special purpose vehicles take 100 percent of the loan. Having the banks hold it may slow all this down. So put the risk in the SPV and let the Treasury cover it. That could help a lot.

Senator WARNER. Amen, and, again, I hope we can in a bipartisan way work together.

Dr. Shierholz, I want to talk about a couple things in my remaining minute. One, you made a comment about the expansion on unemployment. I 100 percent agree on that. I know there has been some controversy about the $600-a-week plus-up. I think it really has helped a lot of struggling families. But I think the bigger, more significant change that took place was the expansion to cover, you

know, big workers, 1099-ers, independent contractors. I can tell you in my State only about 30 percent of the working qualifies for traditional unemployment, and I hope my colleagues on both sides of the aisle will realize this expansion of the universe covered, we really need to maintain it. I think we are talking about a different form of capitalism moving forward, and that is a good expansion that I hope will continue.

I want to specifically raise an initiative that I have been working with Senator Jones and others on called the "Paycheck Security Act", and there are more conservative versions that Senator Hawley has brought, and Senator Gardner. But this notion of as we think about next phase and winding down of direct Government support to those furloughed workers who have lost their jobs, where we in essence cut out the middleman and in a sense model what happens in Europe where they have not seen the spike in unemployment, and, candidly, reconnecting workers with their employers might also put back in place health insurance. So I would love for you to comment on that, if you would.

Ms. SHIERHOLZ. Yes, I think that things like the Paycheck Security Act is something we should have done from the very beginning, as you said, like many of our peer countries in Europe did. We should do it now. This idea to keep people connected to their jobs, to get money to businesses, to pay their workers, even if those workers are not working, but to keep that employment relationship strong, it is just the smartest possible way to ensure a quick bounce-back once the economy is able to reopen so workers and employers do not have to go through this scramble to rehire people that will just delay the recovery and they can get right back to work. And it also means that as few families as possible face the real trauma and potentially lasting effects of job loss. So it is something we should have done from the beginning, but we should absolutely institute it now.

Senator WARNER. Thank you. I know, Mr. Chairman, my time is up. I would just simply ask that at some future hearing we really do need to focus on as well the notion—that as well intentioned all these programs area, there is going to be some percentage—I am afraid double digit—of jobs that may not come back and how we rethink in a forward-leaning way worker retraining. I think we are going to have to break the mold.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you. Understood.

Senator McSally.

Senator MCSALLY. Thank you, Mr. Chairman, for holding this hearing, and thanks to the witnesses for sharing your expertise today.

I want to talk about the Main Street Lending Facility. We have a number of smaller and medium-size businesses in Arizona we have been in touch with where, you know, if you have 499 employees you are able to get access to the PPP. But if you have 510, it is going to be this Main Street Lending Facility that is going to help you stay afloat and get through this. But with the underwriting requirements and the minimum loan amount of 500,000, that is a barrier for a number of businesses maybe with 500 to 600 employees. And as we put the CARES Act together, with all of

these provisions in there, we wanted to ensure that there was support that was widely available with a maximum amount of flexibility.

So I was wondering, both Mr. Quaadman and Mr. Holtz-Eakin, if you could share your perspective on what changes you might suggest to the Main Street Lending Facility as far as the minimum amount or anything else that could help these businesses that are right there on the cusp to make sure that there is not a barrier for them to get access to these resources.

Mr. QUAADMAN. Senator McSally, thank you very much for that question. We share many of your concerns about that the Main Street Lending Program might be too constrained as it is. Some areas that we think should be changed, one is the length of the loan. We think it should be at least 6 years. We also share some of the concerns also raised by Senator Warner about the penalty interest rate. There has been some copying of some of the rules from the PPP, such as affiliation rules, that we do not think work here because these are more complex firms than in PPP. We think that this should also be tailored, and also the risk retention rules for banks create some disincentives on the lender side as well. So we think that this is where there needs to be maximum flexibility for both borrowers and lenders.

Mr. HOLTZ-EAKIN. I think that is a tremendous list. I concur entirely. And I have been through some of those before. In addition, you know, I think the Treasury should—you know, by acknowledging we are going to have riskier borrowers and providing more generous terms, put more money into the Main Street Facility, $100 billion instead of $75 billion, and it has the resources, it should go ahead and do that.

Senator MCSALLY. Great. Thanks. Another niche business that we have seen really get hurt in Arizona are boutique hotels. They employ tens of thousands of Arizonans. The tourism industry has obviously come to a standstill. Part of the criteria is they cannot obtain credit elsewhere and must be creditworthy. They were creditworthy before all of this. So this, again, could be a barrier for them because of the pandemic, not because of their previous financial situation that they were in. So flexibility related to the noncreditworthy issue for things like boutique hotels would you also support?

Mr. QUAADMAN. Yes, Senator McSally, we support that. We also support the expansion of, you know, having other credit rating agencies as well. And I think you raise a very good point about the hospitality industry as well, because that is going to be the last industry that starts to come back.

Mr. HOLTZ-EAKIN. I think you face a very difficult policy design question. The initial design was to just glut businesses with liquidity. The Fed did its part with financial markets, PPP, and the Title IV was a way to do that for the nonfinancial businesses. But as we go forward, the problem will no longer turn out to be liquidity. It will be the viability of some of these business models in the face of a world that still has a virus and will have to operate in the face of that virus. And so how you can support businesses to operate in the presence of the virus I believe is the key policy question going forward, not just cash.

Senator MCSALLY. Thank you. And then one last question in my remaining time about nonprofits that have over 500 employees. There are so many of these. I will give you the example of Childhelp, which is headquartered in Arizona, which is doing amazing things to help abused children. Now more than ever they need to be able to have the support and, as you see, some contributions are going down, but their services and their need is going up at this very critical time. But since they are above 500, they are just in this place where, you know, they are not going to be able to get access to PPP.

Do you think we need a nonprofit facility to be able to address entities like Childhelp and others that are in this situation, that they have higher demand but they have just got some challenges and they just still need access to be able to provide these services?

Mr. HOLTZ-EAKIN. I think that is certainly an idea you should think hard about, because, you know, the goal was to keep doors open and to keep workers attached to their employers. That has nothing to do with being a for-profit or not-for-profit, so you should start with the going-in proposition that everyone is eligible and carve out only those who clearly you do not want to assist.

Mr. QUAADMAN. Senator, we have also supported changes to both the PPP program and the Main Street Lending Program to include not-for-profits as well for many of the same reasons that Dr. Holtz-Eakin raised.

Senator MCSALLY. Wonderful. And I know I am out of time, but, Ms. Shierholz, do you have anything to share on the nonprofit side?

Ms. SHIERHOLZ. I fully agree with the other witnesses.

Senator MCSALLY. OK. Fantastic. Thank you. Thanks, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

I want to start by thanking Senator Brown, Ranking Member Brown, for his comments today about what is happening around us. We cannot come together and just ignore everything that is going on and the racist violence that has killed George Floyd, Ahmaud Arbery, Breonna Taylor, and so many others. This has got to be a moment when we commit ourselves to change and to real accountability, and I hope that is where we will all be putting our energies.

I know that right now we are talking about how to get the economy open again, so I have got some questions about that for our witnesses, and let me start with you, Mr. Quaadman. The Chamber of Commerce has been hosting webinars on reopening of businesses, and recently at one of those webinars, Chamber President Suzanne Clark said, and I want to quote her here: "Public health officials can say when. Government leaders can lift restrictions. Business owners can open their doors. But employees have to be comfortable and consumers have to be comfortable if they are going to leave their homes."

So, Mr. Quaadman, do you agree that employees and consumers are not going to feel comfortable leaving their homes unless they know that they are going to be safe when they go to work or conduct business?

Mr. QUAADMAN. The Chamber has taken a position throughout this pandemic that decisions need to be driven by data and by pronouncements by public health officials. We have also developed with our guides with reopening as well as with our webinars different guidelines that we have taken from various different sources for ways——

Senator WARREN. Let me just stop you there, Mr. Quaadman. I appreciate your going over all you are doing, but it was really a pretty simple question. Do you agree that customers and employees are not coming back until they feel comfortable that they are going to be safe?

Mr. QUAADMAN. Customers and employees should be safe going back into stores and into marketplaces.

Senator WARREN. OK. And they are not coming back if they do not feel safe.

Mr. QUAADMAN. That is what the data seems to show.

Senator WARREN. Good, because I agree with you on that. But tens of thousands of workers have become sick, many have died, after being exposed to coronavirus in their workplaces. We do not have perfect data, but we do know that more than 9,000 health care workers have fallen ill with COVID–19. We know that grocery store workers and meatpacking workers have died. And in New York City alone, we know that more than 80 transportation workers have died from this disease.

Now, the Occupational Safety and Health Administration, which is part of the Department of Labor, is charged with ensuring that workers are safe on the job. That is their job. A key way that OSHA does this is by investigating complaints and taking enforcement actions when businesses put employees at risk.

So, Ms. Shierholz, you have served as Chief Economist at the Department of Labor, and you now study the labor market. Is OSHA on the case right now to help keep workers safe?

Ms. SHIERHOLZ. They are not at all, and I think their record in this pandemic speaks for itself. Given the threat of the coronavirus and the huge number of essential workers who have gotten sick or died, it is absolutely clear that an emergency temporary standard to address the increased risk is needed, but DOL under President Trump has decided not to issue one, and they are receiving thousands of COVID–19-related complaints. But OSHA has basically abdicated its responsibility for enforcing even the existing standards. They have issued only one citation related to the coronavirus so far. OSHA under the Administration is not doing its job, and front-line workers are paying the price, and we will all pay the price because it will make it harder to reopen the economy.

Senator WARREN. So the agency that is tasked with enforcing protection for workers is essentially shrugging their shoulders as workers get sick and die. And instead of calling on OSHA to do its job, Republicans in Congress and lots and lots of lobbyists, including the Chamber of Commerce, are calling for companies to be shielded from liability for anyone who gets sick at their businesses, whether it is workers or customers.

Ms. Shierholz, as you know, companies are not liable simply because a worker or a customer gets sick. Companies are liable only if they fail to take reasonable precautions, like if they jam workers

together without masks or they fail to clean up common areas that everyone is touching. So let me ask: Does a liability shield for companies that make workers—does it make workers or customers any safer, or does it bring in any more customers into the store to help in an economic recovery?

Ms. SHIERHOLZ. Thank you for that question, Senator. I want to be really clear about this. Removing legal accountability from businesses would not make people safer. It would jeopardize the health and safety of workers and consumers, and it would threaten the overall economic recovery. There have been a huge number of examples of companies failing to provide workers with necessary protection, and that will just proliferate if businesses do not face any liability. It is important for reopening.

Senator WARREN. Thank you, and I am sorry to run out of time here, you know, but it is really important to emphasize that giving companies a pass when it comes to the safety of their workers or their customers is not only morally bankrupt; it is bad economic policy. Keeping customers safe, keeping workers safe is the only way we are going to reopen this economy, and to do that we need to implement good safety standards that we apply across the board. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Next is Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you, Mr. Chairman. Thank you, Ranking Member.

Let me start by also associating myself with the comments of Ranking Member Brown earlier in the hearing. I have to say it is to me completely outrageous and just unacceptable. Last night in Las Vegas during the protests, there were shootings that left one person dead and a police officer in critical condition. That is unacceptable, it is outrageous. And when I see the President of the United States doing a photo op with a Bible, without healing this country and calming people down, taking away the fear, addressing what we see in this country right now, which is people are afraid from a health crisis to an economic crisis to a civil rights crisis, and this President doing nothing but acting like he is on a red carpet, holding a Bible. Let me suggest he open the Bible and learn from its teachings and how we treat one another with respect and we focus on what is necessary in this country right now.

I cannot stress enough what we need to do, and everybody has a role and a responsibility to play. I thank you all for being here on this panel. I so appreciate all of the constructive comments that were made today. The goal here is to ensure that we come out of this crisis and we stimulate this economy so that everybody comes out of this together.

Now, I know Nevada and you know this, Las Vegas particularly, Reno and Las Vegas are so hard-hit because they are hospitality industries. And I will tell you in Las Vegas during the foreclosure crisis, it devastated us. The last recession devastated us. It took us 7 years to come out of it. We had one of the highest unemployment rates in the country; 219,000 people in the State of Nevada lost their homes. We know the impact. And so to me and the entire del-

egation in Nevada, our goal is to make sure we are focused on our economy so that we can spring back that much quicker.

So here is my question to all three of the panelists. What I have not heard yet, and I am curious about your thoughts on this, is as we go into the next legislative package, how do we talk about workforce development? I have not heard that yet, and I think—I have heard that we have a really high unemployment rate right now in Nevada and across this country. We know that some of that is going to continue on for the next, I think, year or so. So what should we be doing with respect to workforce development, particularly as we look to putting together the next package?

Let me open it up to the panel, and, Dr. Shierholz, let me start with you. Any thoughts on how we should address it and how we make that investment in workforce development?

Ms. SHIERHOLZ. Yeah, this is a really interesting question. Thank you for this question. I will take maybe an interesting tack here, which is right now our most important workforce development strategy is to bring back aggregate demand because it really will be going forward for a long time the reason workers are out of jobs is not because they do not have the right skills; it is because aggregate demand is too low, demand just is not there. And so that loops back around to getting aid to State and local governments, increasing unemployment insurance benefits, all of the kind of measures to stimulate the economy are, sort of ironically, the thing to do right now for developing our workforce.

Senator CORTEZ MASTO. Thank you. Dr. Holtz-Eakin? Or whoever. Yeah, please.

Mr. HOLTZ-EAKIN. I would like to politely disagree with that. This period strikes me as comparable to the period after September 11, 2001, when we had a threat to the U.S. population, and as a corollary, we had to somehow figure out how to operate the economy in the presence of that threat. What we saw in that period was a lot of problems with supply, the need to inspect cargo, you know, we put up the TSA, and we had bad economic growth. We had a very unsatisfying performance. And we tried aggregate demand in 2002, 2003, 2005, and 2008, to not great effect. So I think the focus should be on finding a way to make supply more resilient in the face of the virus so that we can operate this economy going forward. I think that should be something—not exclusively but something that has to be part of your consideration. And over the long term, you are exactly right. If we are going to have elevated unemployment over 2 years from now, unemployment insurance is not the answer to that. That is not a solution. Keeping a $600 bonus in perpetuity will be harmful, not helpful. We need to get real strategies that give workers skills and allow them to move to more vibrant parts of the economy if the job that they used to have does not come back.

Senator CORTEZ MASTO. Thank you.

Mr. Quaadman.

Mr. QUAADMAN. Thank you, Senator. Up-skilling the workforce we believe is an important priority coming out of this crisis. The composition of the workforce, the different jobs people are going to be involved in in the coming years is going to be different. We recently had a group of our—we had an event with our technology

group where we had a broad discussion on that. In each phase of the crisis here, we have formed different task forces to deal with different issues. We are coming up with a new round of task forces that are going to start within the next few days, and up-skilling the workforce is going to be a part of that, and we will be happy to have a discussion with you on these issues.

Senator CORTEZ MASTO. Thank you. I appreciate that. Thank you for the conversation. I notice my time is almost up. I will submit the rest of my questions for the record.

Thank you all for participating with us today.

Chairman CRAPO. Thank you.

Next is Senator Jones, and he will be followed by our final questioner, Senator Sinema, who will be on the telephone. Senator Jones.

Senator JONES. Thank you, Chairman Crapo. I really appreciate this. And thanks to all our panelists for joining.

You know, we have talked so much about what we need to be doing to open essential—get the essential economy reopening, but it seems to me that so much of what we have been doing is not just to save businesses and save livelihoods, but to also save lives. And I appreciate Senator Brown's comments because, clearly, while we had a robust economy before this pandemic, so much of that economy was not working for so many people in America. In a State like Alabama, there were so many folks who were working, but yet did not have health insurance through their employer and were not eligible for Medicaid because our State did not expand Medicaid. And there was some reluctance to allow States to use the CARES money that we had for the expansion of Medicaid, which I do not fully understand.

But I also want to point out that when we talk about certain things about rebuilding our economy and rebuilding and getting things open, you want to rebuild it in a better way so that it can help all people. And I think that that is what we have to be looking at, whether it is trying to make sure that people have access to the ballot box easier, because, you know, not everyone in my State has a printer like I do. Not everyone in my State has a copier like I do. They cannot get to someone to notarize their ballots, and they are afraid to go stand in the ballots, and we do not have early voting, we have to vote in that 12-hour period. So there are a lot of things that we have to do as part of our package to both look at the essential economy, but also to save lives and to save those livelihoods.

I want to go back to some comments that I have heard. I know there has been a fair amount of testimony regarding State and local governments, and, Mr. Quaadman, I would like to ask you, you mentioned earlier there is a connection between State and local government recoveries and these grant monies and those businesses. Has the Chamber of Commerce taken any kind of formal position with regard to grants or monies to go to State and local governments? Because that seems to have been politicized in a way that everyone agrees that it should not be lately, and I am wondering if the Chamber has taken a specific position with regard to funding for State and local government.

Mr. QUAADMAN. Thank you, Senator Jones. We have been very supportive of the Municipal Liquidity Facility. In fact, in my testimony we have also made a recommendation for a set-aside of 10 percent within a State, that that can go to noneligible Government entities, so, you know, some of the counties and cities that Chairman Crapo was referencing earlier.

We also believe that there should be some form of aid to State and local governments, and that should be tied directly to revenue shortfalls so that it is directly tied to the drop-off there. And we are going to have more to say about that as we are coming together, as I said earlier, with some of our recommendations for a CARES Act 2.0.

Senator JONES. Great. And, you know, Dr. Shierholz had talked about grant monies. Has the Chamber taken a position between loans that may put folks down the road still in a difficult position with their balanced budgets versus the grant monies to try to keep people employed because so much of our workforce in this country is employed by State and local government?

Mr. QUAADMAN. We are still reviewing that. I do not believe we have taken a position on that just yet.

Senator JONES. All right. If you do that, I would like to get that whenever you do, if that is possible.

Mr. QUAADMAN. Will do, Senator.

Senator JONES. I would like to finally ask the panel—and I appreciate Senator Warner's comments about the Paycheck Security Program and, Dr. Shierholz, your statements about that. But I would like to talk a little bit more about minority-owned businesses. It seems that so many minority-owned businesses these days are really struggling. They did not get the initial PPP. They did not get the EIDL loans because their credit suddenly sunk. What is going to be the long-term impact? And I would like to ask Dr. Shierholz and if you could, Mr. Quaadman, also chime in about what the Chamber is going to do to try to specifically help minority-owned businesses. But what is the long-term impact? What can we do specifically for minority-owned businesses in this country?

Ms. SHIERHOLZ. Thank you for the question. What we know is that so far much of the Government support has gone to well-connected companies, which, due to many factors, with structural racism at the core, disproportionately excludes minority businesses. But minority businesses, too, as you point out, have seen a huge drop in their revenues and will have no choice but to declare bankruptcy if they do not receive relief. So it is just extremely important that we make sure that various forms of aid are getting to minority businesses, not just the most well connected.

Senator JONES. Mr. Quaadman, is the Chamber going to specifically look—I mean, frankly, minority businesses have a lot of barriers to begin with. Is the Chamber looking at specific programs to help minority-owned businesses?

Mr. QUAADMAN. Thank you, Senator Jones, and I can probably exemplify more in writing, but we have supported CDFI set-asides with the latest round of PPP funding. And as I said earlier, we are also working with Rick Wade who heads up our diversity programs. Starting in April, we have started a conversation with financial services members to talk about how we can get more resources to

minority- and women-owned businesses. So this is a priority of the Chamber as well.

Senator JONES. Great. Thank you.

Thank you, Mr. Chairman. I will have some more questions for the record.

Thank you.

Chairman CRAPO. Thank you.

Our final questioner is Senator Sinema.

Senator SINEMA. Thank you, Mr. Chairman. I think I have been unmuted. Can you hear me?

Chairman CRAPO. Yes, we can hear you.

Senator SINEMA. Wonderful. Thank you. So thank you to all our witnesses for being here today.

You know, through passage of the CARES Act, Congress made a commitment to business owners across the country to provide meaningful relief. In Arizona, the Federal Government has not kept its promise because small business owners have been forced to jump through bureaucratic hoops, unemployment has skyrocketed, and stimulus payments have been lost in the mail for weeks. For too many families and small businesses, relief has been difficult to come by.

So today we have an opportunity to talk about the Federal Reserve's emergency facilities which, if implemented properly, will ensure U.S. businesses, cities, counties, and towns can access the financing they need to maintain operations, create value, and protect jobs.

So, Mr. Quaadman, thank you for being here. I appreciate you urging an adjustment of the Fed's term sheets so that these loan programs can provide needed liquidity to businesses to weather this economic storm. I also appreciate your calls to expand eligibility for the Municipal Lending Facility so smaller cities, towns, and counties can access this vital financing.

Congress can complement this effort by passing our bipartisan SMART Act, which is legislation to provide an additional $500 billion to State, local, and tribal governments. Additional support ensures continuity in vital local government services, empowers our local leaders with the resources they need to fight the coronavirus, and strengthens our economy as we work to recover.

So, Mr. Quaadman, on April 16th, you provided recommendations to the Federal Reserve on how to better tailor the Main Street Program. Doctors and public health experts warn of a second wave of coronavirus in the fall. How vital is it to get Main Street lending done correctly right now given the likelihood of a recurrence in the fall?

Mr. QUAADMAN. Thank you very much, Senator Sinema, and we appreciate our past partnership on legislative initiatives such as the JOBS Act.

Number one, we think it is very important and vital that Main Street lending get off the ground and get off the ground in an efficient way to deal with the issues that we are trying to deal with now and to try and work through the summer. We are also extremely concerned, as you have alluded to, that there could be a second wave of coronavirus that could have economic implications. We are actually reviewing a proposal that we have been talking

about with some members for some time now about possibly creating a bridge loan program that could help businesses get through a second wave, but possibly do so in such a way that could also be done without necessarily a grant, but also to help minimize some of the risk to the Federal Treasury as well. So we may have more to talk about that very soon.

Senator SINEMA. Well, thank you. I appreciate your perspective, and my hope is to encourage Congress and the Administration to begin doing some long-term planning for these scenarios so our economy is resilient and can manage these challenges better as we move forward.

My next question relates to our path forward. As we have seen, lending facilities, just like the Paycheck Protection Program, employee retention tax credits, individual rebate checks, and other aspects of the CARES Act, can be vital tools for stabilizing and rebuilding the economy. Effective implementation is key, and understanding the capabilities and limitations of each policy tool is very crucial. For example, if a bank is too overwhelmed or the SBA's IT system is outdated resulting in a business not getting its PPP loan, then the program is not working as expected. This experience should teach Congress that in a crisis the speed and efficiency of financial relief matters to everyday Arizonans.

So what I am concerned about is the capability of institutions, both Government and private, to quickly deliver prescribed financial relief. For example, Dr. Holtz-Eakin, you have spoken on the Federal Reserve's limited ability to help. You have also stated the fastest remedy would be to provide businesses with grants or loans, which Congress tried to do but, of course, execution was lacking.

We have a number of options for our fourth coronavirus response package to help businesses and families get back on their feet. We are considering additional rebate checks, more grants and loans, leveraging banks, insurance, the Tax Code, or other mechanisms all to get relief and certainty to people that need it. And that is a lot to consider, so I want to make sure we get it right.

So my last question is for those who wish to respond, what is the fastest and most efficient mechanism to provide financial assistance to small and medium-size businesses? And what is the fastest and most efficient way to provide relief to families?

Chairman CRAPO. And if you could please be brief. We are in a vote already.

Mr. HOLTZ-EAKIN. I will be happy to respond in writing.

Mr. QUAADMAN. I can do the same, Senator, but I would just say that our well-capitalized banking system is an important bulwark to get this done.

Ms. SHIERHOLZ. And I will jump in and say I know we have talked a lot about the importance of State and local aid which would support all of that, and we can do that very quickly by having the Federal Government take over Medicaid payments as a way to get money out. We should absolutely be doing that.

Senator SINEMA. Thank you so much.

Mr. Chairman, thank you, and I appreciate all of our witnesses being here today. I look forward to seeing their responses in writing as well.

Chairman CRAPO. Thank you. That concludes our questions, and we are in a vote. However, Senator Brown has asked for a brief concluding remarks, and then we will wrap it up.

Senator BROWN. Thank you, Mr. Chairman. As you know, I like to do this, but I also respect the way you run this Committee and keep it short. So thank you.

Thank you very much to the three witnesses for your insight and the comments you made.

This comes down, Mr. Chairman, to standing up for the people who make our country work, and we cannot do that until we talk about what is broken. I am frustrated, as so many of my Democratic colleagues on this panel clearly are, I am frustrated, especially given all that is happening right now, that so many of my colleagues refuse to see the role of systemic racism in this problem. It is not just about education. Education does not explain the massive disparity in black people's incomes even when they have the same education as their white peers. It does not explain the difference in maternal mortality rates held constant for education.

If my colleagues were serious about education—and I know my colleague from Pennsylvania especially talked about it—they would be talking about investing more in public schools, something they rarely do. The last crisis was longer, it was deeper because we ignored the people who got hurt the most, especially black and brown people who suffered most from the foreclosure crisis. You have heard me in this Committee a number of times say my wife and I live in zip code 44105 in Cleveland, Ohio. That zip code in 2007 had more foreclosures than any zip code in the United States. I still see the devastation from that, and those are the people getting hit hardest by this crisis. Whether it is segregation, whether it is denying people the ability to vote, whether it is fighting for the right to organize in the workplace, we have always found ways to keep Americans from getting ahead. The difference is my colleagues and I on my side of the aisle think we actually must do something about it.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator Brown. And that does conclude today's hearing. I again thank our witnesses for your expertise and for giving us the time to be here as a part of this panel.

For Senators who wish to submit questions for the record, those questions are due on Tuesday, June 9th, and I ask the witnesses to respond to those questions as quickly as you can.

Again, thanks to each of you for participating in the hearing today, and this hearing is adjourned.

[Whereupon, at 11:51 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

## PREPARED STATEMENT OF CHAIRMAN MIKE CRAPO

This hearing is another remote hearing via video.

A few videoconferencing reminders: once you start speaking, there will be a slight delay before you are displayed on screen. To minimize background noise, please click the mute button until it is your turn to speak or ask questions. If there is a technology issue, we will move to the next senator until it is resolved. I remind all senators and the witnesses that the 5-minute clock still applies. You should all have one box on your screens labeled "clock" that will show how much time is remaining. At 30 seconds remaining, I will gently tap the gavel to remind senators their time has almost expired. To simplify the speaking order process, Senator Brown and I have again agreed to go by seniority for this hearing.

With that, today we welcome to this virtual hearing the following witnesses: Mr. Thomas Quaadman, Executive Vice President, U.S. Chamber, Center for Capital Markets Competitiveness; Dr. Douglas Holtz-Eakin, President, American Action Forum; and Dr. Heidi Shierholz, Senior Economist and Director of Policy, Economic Policy Institute.

Congress and the Administration have taken extraordinary actions to mitigate the impact of the COVID–19 pandemic and provide conditions that will lead to a forceful economic recovery.

The Coronavirus Aid, Relief and Economic Security Act, or CARES Act, has been central to that effort.

Today we will focus on Title IV of the CARES Act, which provided a $500 billion infusion into the Exchange Stabilization Fund, the bulk of which is being used to support the Federal Reserve's emergency lending facilities.

This unique lending authority, known as 13(3) authority, is authorized under section 13 of the Federal Reserve Act, and plays a critical role in stabilizing markets.

We will receive testimony from each witness on the impact that the 13(3) facilities have had on the economy, what the policy trade-offs are of expanding or restricting the term sheets of the 13(3) facilities, how the unused funds from Title IV should be prioritized or leveraged, and an overall focus on Title IV implementation.

Beginning on March 17, 2020, and before the CARES Act was signed into law, the Federal Reserve had already announced six 13(3) facilities.

On April 9, 2020, after the passage of the CARES Act, the Federal Reserve Board and Department of Treasury announced new and expanded lending programs to provide up to $2.3 trillion in loans. This was a powerful step forward to support the flow of credit in the economy.

At the Banking Committee hearing with Secretary Mnuchin and Chairman Powell on May 12, 2020, Secretary Mnuchin noted that the mere announcement of the Corporate Bond Facility, without putting up $1 of taxpayer money, unlocked the entire primary and secondary market for corporate bonds.

The Federal Reserve's recent Financial Stability Report highlighted a similar effect on financial markets resulting from the announcement of other facilities, noting that "Indicators of market functioning improved after the announcement of the CPFF, the MMFL, and the PDCF."

Although the announcement of many of these facilities can help move markets toward more normal functioning, becoming operational is key to achieving their full potential.

With respect to the Federal Reserve's emergency lending facilities, I look forward to hearing: how announcing and operationalizing the facilities have impacted the economy and financial markets so far; how the facilities have provided or stand to provide necessary credit to households, businesses, States and local governments; ways that the facilities could be improved; and how existing term sheets could be further expanded or opportunities to build upon the efforts of existing facilities.

The Main Street Lending Facilities and Municipal Liquidity Facility extend a lifeline to States, local governments, tribes, and businesses by supporting over a trillion dollars of lending with $110 billion of Title IV funds.

Incorporating widespread restrictions in these facilities could render the facilities ineffective and leave businesses and their employees without critical resources they desperately need.

Excessive restrictions not only risk ineffectiveness for the Main Street Lending Facilities, but also for other facilities, as well.

For example, on May 11, the Fed updated the term sheet for the Municipal Liquidity Facility to lower the population thresholds for cities and counties, despite not being included in the CARES Act at all.

While this was a step in the right direction, it still leaves many smaller and rural communities without direct access to financial resources, including no cities or counties in Idaho.

Each of these facilities, especially those funded by the CARES Act, provide an opportunity to support businesses, employees, States and local governments whose lives have been suddenly turned upside down by Governments' effort to stop the spread of COVID–19.

The work to get these facilities up and running has been of immense importance, and now it must be ensured that they are structured to achieve the greatest impact for those in need.

I appreciate each one of you joining us today.

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## PREPARED STATEMENT OF SENATOR SHERROD BROWN

Thank you, Mr. Chairman for holding this hearing.

The pandemic has been the "great revealer." It reminds us how vulnerable many Americans are, and how the economy and Government policy tilt in favor of the wealthy, powerful, and privileged.

A grocery store worker in Ohio told me recently, "I don't feel safe at work and they don't pay me much. They tell me I'm essential—but I feel expendable."

Long before this pandemic, millions of Americans knew that we have a system that treats them like they're expendable. Their hard work isn't paying off. For some it feels like the system is broken—and for black and brown workers, it never worked to begin with.

It's those black and brown communities across our country who have been hit hardest by the coronavirus—they are more likely to get sick, they have less access to health care, they make up the communities hurt by redlining and Jim Crow laws, and they disproportionately make up our essential workers. It's not because they don't work as hard, it's not because of individual choices—we ALL work hard, we're ALL trying to do something productive for our family and our community, and we ALL want to build a better country for our daughters and our sons.

No, it's because of a system that has been making it harder for their work to pay off, and putting their lives at risk for generations—long before this virus appeared.

It doesn't matter if they are jogging in their neighborhoods, protesting injustice, asleep in their beds, or driving to the store. Black men and women know that systemic racism puts their lives and the lives of their children at risk. All the time. This is their everyday.

When Breonna Taylor was killed by police in Louisville and when George Floyd was killed by police in Minneapolis, people came to the streets across this country to peacefully protest. It is an expression of fear, grief, frustration, and anger. It is the same grief we had in Cleveland when 12-year old Tamir Rice was gunned down by police in a park.

More black sons and daughters and mothers and fathers killed by police officers, the very people who are supposed to protect all Americans. More death, when many are already grieving the loss of family members and friends to the coronavirus and grappling with the economic stress this pandemic has caused.

Black communities led the Nation in mourning the killings of George Floyd and Breanna Taylor over the last week—leading calls for justice and long-term changes to dismantle systems of oppression.

And in the midst of that trauma and grieving, millions of those same Americans still go to work, day after day, week after week.

Our job is to show victims of systemic racism at the hands of their own Government that the same Government will protect them from this pandemic—that we hear them, that we see them, that we are fighting for them. And that their lives matter.

Our response to this crisis must be to stand behind the people who make this country work—all workers, whether you punch a clock or swipe a badge, earn a salary or make tips; whether you're raising children or caring for an aging parent. Whether your hard work isn't paying off now, or whether it's never paid off the way it should.

Not everything is about money. But the work we do on this Committee should show Americans that the Government is on their side. Our work on this Committee needs to address wealth inequality and to make sure everyone is treated fairly.

But instead, we are repeating the mistakes of the past and helping the rich and powerful, and the corporations they run, while leaving most Americans to fend for themselves. We have committed trillions of dollars to bail out corporations, without requiring those corporations to take care of their workers.

As Dr. King said—"One day our society will come to respect the sanitation worker. For the person who picks up our garbage, in the final analysis, is as significant

as the physician, for if he doesn't do his job, diseases are rampant. All labor has dignity."

It's black and brown workers who have been robbed of their dignity on the job—far, far too often.

If we want to be a country where every person has dignity, we need to start by recognizing that all labor has dignity.

But so far, our response to this crisis is not the response of a Government that believes that.

Congress can always find trillions of dollars for corporations—for tax cuts, for bailouts. But when hardworking families need help with rent, or to put food on the table, this President and this Congress say we can't afford it.

The President and his administration had already made racial and economic inequality worse, and undone civil rights protections. They've been pretty clear they're willing to put workers' lives at risk—to reopen stockyards, or just to juice the stock market.

And last night, the President of the United States turned the arm of the State on peaceful protesters, teargassing the citizens he's supposed to serve and exploiting a house of worship, to stage a photo-op.

President Trump and his Administration believe that millions of Americans are expendable—and it's not a coincidence that many of the people they consider expendable are black and brown workers.

Since the President is unwilling to protect people—whether that's protecting their lives, or protecting their financial future—we must fill the leadership void.

I hope today's witnesses can shed light on what we must do to make sure the economic recovery isn't uneven and unjust, like the last one.

I'll close with this:

Whenever people bring up the ways the system has failed so many Americans—online, at a hearing, or at a protest march—there are always naysayers—always white, usually men, often pretty well off—who say, how can you be so negative? Why do you want to dwell on all the worst parts of history? Don't you love our country?

My response to our country's naysayers and sunshine patriots is this: how can you be so pessimistic as to believe this is the best we can do? Do you really think that the American people—with our ingenuity and optimism and tenacity—do you really think we can't create a fairer economy and a more just Government? Do you truly believe we can't have a society that works for everyone—black and white and brown, women and men, no matter who you are or what kind of work you do?

Protesting, working for change, organizing, demanding our country do better—those are some of the most patriotic things all of us can do.

I love my country—and if you love this country, you fight for the people who make it work. ALL of them.

Thank you, Mr. Chairman.

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## PREPARED STATEMENT OF THOMAS QUAADMAN

EXECUTIVE VICE PRESIDENT, CENTER FOR CAPITAL MARKETS COMPETITIVENESS, U.S. CHAMBER OF COMMERCE

JUNE 2, 2020

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as State and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96 percent of Chamber member companies have fewer than 100 employees, and many of the Nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 States.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activi-

ties. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Chairman Crapo, Ranking Member Brown, and Members of the Committee on Banking, Housing, and Urban Affairs: My name is Tom Quaadman, executive vice president of the Center for Capital Markets Competitiveness (CCMC) at the U.S. Chamber of Commerce. Thank you for the opportunity to testify today regarding implementation of Title IV of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

The last few months have brought incredible hardship to all Americans. The lives lost and affected by the coronavirus pandemic are a national tragedy, and many people remain gravely concerned about the health of their loved ones. But, every day we hear more stories of Americans doing extraordinary things to help their families or those in their communities and are reminded that even in these difficult times, America's spirit of service is alive and well.

The pandemic has also led to the swiftest and most significant economic downturn the United States has ever faced. In the span of 2 short months, tens of millions of Americans have lost their jobs, millions of businesses have been ordered to limit their activities or shut their doors entirely, and households have struggled to pay their mortgages, rent, utilities, and other regular expenses. Governments at all levels have had to take extraordinary and unprecedented actions to keep our economy afloat and allow workers to continue to get a paycheck.

Title IV of the CARES Act authorized $454 billion for the Treasury Department's Exchange Stabilization Fund to be used for the creation of Federal Reserve credit facilities under Section 13(3) of the Federal Reserve Act. Since passage of the CARES Act, the Federal Reserve announced the establishment of several facilities to support lending to main street businesses, municipalities, and other markets that are critical to the functioning of our broader economy. These 13(3) facilities—once fully operational—will eventually support around $3 trillion of lending to the economy.

The Chamber commends the ongoing work of the Senate Banking Committee and the recently established Congressional Oversight Commission (COC) to conduct rigorous oversight of these lending programs. The ultimate goal of policymakers should be to ensure that the credit provided under the CARES Act flows to the businesses and households that most need it, while rooting out any waste, fraud, and abuse that would undermine or impede economic recovery.

While American businesses have been impacted as never before by the pandemic, make no mistake that American businesses will be the linchpin in our road to recovery. Whether it is reorienting assembly lines to produce personal protective equipment, taking extraordinary measures to help employees or devastated communities, or working their hardest to find a vaccine and treatment for the coronavirus, businesses have stepped up and will continue to do everything in their power to meet this national challenge.

The Chamber's views on the current state of our economy and recovery efforts are discussed in greater detail below.

**The Current Economic and Employment Crisis**

The economic shock brought on by the pandemic is unprecedented in both its speed and severity. Since the beginning of March, over 40 million Americans have lost their jobs and filed for unemployment as business revenues have dried up and some segments of our economy have come to a complete halt. 1st quarter GDP declined by 5 percent, and some forecasters estimate that 2nd quarter gross domestic product could decline by over 40 percent. [1]

The pain is especially pronounced in certain industries. Based upon April employment data, the food, travel, and events industry has lost more than 46 percent of its workforce; retail has lost 14 percent; and the service industry has lost over 17 percent. [2] Many of these workers are hourly earners and can ill-afford a sustained interruption to their ability to earn a livelihood.

A recent study from the University of Chicago also demonstrates how the crisis has disproportionately impacted lower-wage workers. The study found that only 37 percent of the U.S. workforce is fully able to "work from home." [3] This demographic is largely made up of white collar, technology-oriented jobs that can be done from

[1] "GDP Could Decline by 42 Percent in the Second Quarter, According to the Atlanta Fed", CNBC, May 15th, 2020

[2] *https://www.uschamber.com/series/above-the-fold/analysis-breaking-down-the-unemployment-crisis-industry*

[3] "How Many Jobs Can Be Done From Home?" Jonathan Dingel, Brent Neiman. April 16th, 2020.

a laptop. The stay-at-home orders and mandated shutdowns do not affect these workers as much as they do blue collar or service-oriented positions. While the CARES Act and Government assistance programs can be an important bridge for workers that have lost their jobs and are seeking a return to work, they are by no means a long-term solution.

The current outlook for small and medium-sized businesses has been similarly grim. In early April, the Chamber, in partnership with MetLife, released the results of a survey which found that under current conditions, 43 percent of small businesses believed they had less than 6 months until a permanent closure was inevitable.[4] Middle-market businesses—which employ over 40 million workers—have also been faced with incredibly difficult decisions regarding their future operations and workforce.

The Chamber has urged Congress and regulators to consider the unique circumstances that led to the dire economic situation we face. This crisis was not caused by any type of market or regulatory failure and did not originate as part of the normal business cycle. Businesses and workers have been harmed through no fault of their own and the lending programs established over the last 2 months are, for many businesses, their only viable source of financing.

**Importance of Lending Programs for Businesses, Employees, and the Broader Economy**

The Chamber supported the inclusion of several programs in the CARES Act intended to help businesses weather the current storm and retain their employees.

These programs included the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA) and which provides for forgivable loans—with certain conditions—for businesses with no more than 500 employees. As recently reported by the Treasury Department, the PPP has originated more than $530 billion in loans to over 4 million borrowers, making the program one of the more critical tools to helping small businesses survive.

The CARES Act also provided $454 billion in funding for Federal Reserve lending facilities under Section 13(3). As noted by Treasury Secretary Mnuchin to this Committee recently, since mid-March Treasury has approved the establishment of several facilities, including:

- The Commercial Paper Funding Facility
- The Primary Dealer Credit Facility
- The Money Market Mutual Fund Liquidity Facility
- The Term Asset Backed Securities Loan Facility
- The Primary Market Corporate Credit Facility
- The Secondary Market Corporate Credit Facility
- The Main Street Lending Program
- The Municipal Liquidity Facility; and the
- PPP Liquidity Facility

To date, Treasury has committed $195 billion of CARES Act funding to these facilities, and Secretary Mnuchin has stated Treasury's intent to the commit the remaining $259 billion.

Without these facilities and the provision of credit through the Federal Reserve's "lender of last resort" function, many otherwise healthy businesses would face the prospect of permanent closure, critical components of our financial markets would be severely impaired, and the shock caused by the pandemic would turn into a prolonged and severe economic downturn.

**Robust Oversight of Lending Programs Is Critical**

The Chamber strongly supports efforts by Congress, the Congressional Oversight Commission, and eventually the Special Inspector General for Pandemic Recovery to provide oversight for the CARES Act lending programs. Oversight of these programs is central to the confidence of taxpayers that the funding authorized under the CARES Act is being deployed responsibly and in a manner that will support economic recovery. Accordingly, identifying fraudulent actors and holding them accountable should be the top priority of oversight efforts.

We also believe that oversight is important to ensure that funds are being appropriated in a manner that is consistent with Congressional intent, and that borrowers are following the appropriate terms and conditions for eligibility. Such over-

[4] "Special Report on Coronavirus and Small Business", U.S. Chamber and L. April 3rd, 2020, *https://www.uschamber.com/report/special-report-coronavirus-and-small-business.*

sight assists businesses' understanding of the expectations that policymakers have set for participation.

The Chamber has consistently supported oversight mechanisms in times of crisis when taxpayer dollars are used as a lifeline for the economy. For example, in 2009 the Chamber support the Troubled Asset Relief Program (TARP) Accountability Act which provided a mechanism for Government and the public to easily track and monitor disbursement of TARP funds in the wake of the 2008 financial crisis.[5] As we stated then, "This level of transparency will help avoid the misuse of funds and develop a level of confidence that is integral to the success of TARP."

At the same time, using this crisis and exploiting the CARES Act facilities to pursue unrelated policy goals—or to shame certain companies or industries for availing themselves of programs they are legally eligible for—should not be confused with "oversight." Businesses in every sector and of every size are being harmed by the pandemic, and many will ultimately choose to apply for and receive credit under a program. Our economy will never fully recover if lending programs become politicized and used as a mechanism to direct policy outcomes that are uncorrelated to putting Americans back to work and getting the economy growing again.

As we noted in a recent letter to the Treasury and Federal Reserve, the Chamber also remains concerned over certain corporate governance restrictions for 13(3) facilities that were included as part of the CARES Act, including a prohibition for certain borrowers from paying dividends or engaging in share repurchases.[6] Such restrictions are based upon the reasonable argument that businesses and shareholders should not be rewarded with taxpayer support for reckless or irresponsible behavior.

However, the current crisis is inherently unique in that businesses seeking financing find themselves in such a position through no fault of their own, and in most cases have been mandated by a Government body to limit or cease operations. Moreover, retirees and other retail investors that rely on the returns generated by dividends and share repurchases would be harmed by a broad prohibition against such distributions. The Chamber continues to urge the Treasury Department or Federal Reserve to use extreme prudence if they decide to implement these restrictions authorized under the CARES Act.

**Section 13(3) Lending Facilities**

While the lending facilities established by the Treasury Department and Federal Reserve are incredibly expansive, we recognize that given the severity of the economic situation they may ultimately not entirely fulfill the credit needs of our diverse economy. We urge both the Treasury Department and Federal Reserve to be flexible in adapting to economic conditions as they evolve. The Chamber and its members have taken strong interest in the recently established credit facilities. Our views regarding a number of them are described in greater detail below.

**Main Street Lending Program**

The Main Street Lending Program was announced by the Federal Reserve in early April and is expected to be operational in the coming days. The MSLP will provide up to $600 billion of credit through the Main Street New Loan Facility, Main Street

Priority Loan Facility, and the Main Street Expanded Loan Facility. The MSLP will be especially important for middle market businesses that are ineligible for the PPP but are struggling to finance their operations and payroll.

The Chamber was pleased with several changes made to the eligibility requirements of the program by the Federal Reserve in mid-April. These changes included modifying employment and revenue thresholds to include more businesses, decreasing the permitted minimum loan size by half, allowing for the use of adjusted EBITDA to determine leverage, including borrowers with nonterm loans, and substituting the Secured Overnight Financing Rate (SOFR) with the still widely used London Inter-bank Offered Rate (LIBOR) to price loans.

While these changes should make the program more attractive, as noted above we believe that restrictions on capital distributions could ultimately be harmful to both businesses and their shareholders. We also believe eligibility requirements under the MSLP should be modified to include nonbank lenders, in particular by expanding the definition of an "eligible loan" to include those made by nonbank lenders.

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[5] See testimony of U.S. Chamber to House Financial Services Committee, September 17th, 2009, *http://archives-financialservices.house.gov/media/file/hearings/111/quaadman—testimony.pdf.*

[6] *http://www.centerforcapitalmarkets.com/wp-content/uploads/2020/04/4.16.20—CCMC—MainStreetLoanFacilities—Fed—Treasury.pdf?#*

Additionally, while the banking system stands ready to assist and serve as conduits for main street businesses to access the MSLP, we continue to hear concerns that some of the other terms of the facility are unduly restrictive for some borrowers. For example, extending loan maturities up to 6 years would provide greater flexibility for borrowers, and we believe that the Federal Reserve should reexamine the "penalty rate" provided for under the program which currently may prove to be a disincentive for many borrowers.

Congress, the Treasury Department, and the Federal Reserve should be cognizant about the possibility of "donut holes" being created that leave out important sectors of the economy. The MSLP was intended to complement the PPP by providing credit to medium and larger businesses that are not eligible for SBA lending. Yet, it appears key eligibility restrictions for the MSLP were copied from PPP requirements that were drawn from the SBA's 7(a) program. The latest FAQ's for the MSLP (May 27, 2020) cite ineligible businesses as those that include those "listed in 13 CFR 120.110(b)-(j), (m)-(s), as modified and clarified by STA regulations for purposes of the PPP . . . ," but do note "The Federal Reserve may further modify the application of these restrictions.". This would, for example, exclude passive businesses owned by developers and landlords that are critical for providing locations for main street businesses to operate.

The Chamber will continue working with the Treasury Department and Federal Reserve to ensure that the terms of the MSLP and other relief programs do not create any harmful gaps that penalize critical industries.

**Term Asset-Backed Securities Loan Facility**

The Federal Reserve announced the establishment of the Term Asset-Backed Loan Facility (TALF) on March 23, 2020, wherein it noted it would lend up to $100 billion on a nonrecourse basis—an amount equal to the market value of the asset-backed securities (ABS) less a haircut—to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. This announcement noted that eligible securities will include those backed by student loans, auto loans, credit card loans, loans guaranteed by the SBA, and other certain asset classes—all of which support critical aspects of our economy. Spreads for eligible asset classes tightened almost immediately suggesting the market is responding positively to the program even before it extends credit. TALF's first subscription date for loans backed by eligible ABS will be June 17, 2020, and the first loan closing date will be June 25, 2020.

The commercial real estate industry has faced a number of unexpected yet severe headwinds in recent months as a result of business disruptions due to COVID–19. In general, tenants that were otherwise creditworthy before the crisis have been unable to pay rent due to disruptions in their business including Government orders to limit their operations. Many tenants of commercial properties have found they are ineligible for programs intended to support main street, or are restricted in how funds are used, causing them to miss rent payments or request forbearance. This has imposed stress on creditors that support this market that could be mitigated by TALF.

The Federal Reserve's May 12th term sheet, while positive, appears to fall short of ameliorating some major liquidity issues. Importantly, the May 12th term sheet indicates that TALF-eligible collateral includes the AAA-rated tranches of both outstanding commercial mortgage-backed securities (CMBS). There is evidence to suggest that the announcement to add AAA legacy CMBS to the program has already improved liquidity in the sector. The Chamber supports this expansion of TALF, which we believe would help alleviate the extreme funding pressures in the commercial real estate market during this period of uncertainty. However, it is our understanding from tenants and creditors that this support for CMBS is inadequate.

We believe the Federal Reserve should expand TALF. First, it should be noted that TALF only includes legacy CMBS, it does not include new securitizations. The liquidity for legacy CMBS is vital but does not adequately address the new issues facing the commercial real-estate market. There would be great benefit to the commercial real-estate market, including for tenants, if TALF were expanded to new securitizations. Additionally, the Chamber has noted that legacy Single Asset Single borrower and conduit legacy securities should be included in TALF.

Finally, TALF should address financing challenges for private residential mortgage backed securities (RMBS). This asset class was arguably excluded from TALF 1.0 (i.e., the original iteration of the program created in 2008) due to uncertainty of credit risk in the market at this time. However, while TALF 1.0 is a helpful model, it does not fully account for the unique nature of this economic crisis or changes in market structure. At the request of Congress, underwriting has been substantially strengthened by lenders for residential mortgages that provides more

transparency for credit risk. And, unlike Government guaranteed mortgages, private mortgage are not supported by any emergency lending programs.

**Municipal Liquidity Facility**

State and local government budgets have come under enormous pressure in the wake of the pandemic, as business activity and tax revenues have dried up. Businesses of all sizes depend on the critical services provided by State and local governments—maintaining roads, public safety, health care, etc.—to operate their businesses. The continuity of these critical services is especially important during this time of uncertainty.

The Chamber accordingly has supported the establishment of the Municipal Liquidity Facility (MLF), which will provide a $500 billion backstop for the short-term funding needs of States and cities across the country. The Chamber was pleased by changes made by the Federal Reserve to the original terms of the MLF that would expand eligibility to more counties and cities as opposed to just the largest ones, but there are outstanding questions about the effectiveness of its structure in terms of eligibility and the cost of funds.

The primary question the Federal Reserve, and this Committee, should remain focused on is eligibility to access the MLF and the effectiveness of indirect access for noneligible issuers. The original term sheet (April 9) permitted access for U.S. States, counties with a population of at least two million residents, and U.S. cities with a population of at least one million residents—one estimate determined only 24 local governments (in addition to the States) nationwide would qualify for direct access. The Chamber was pleased the updated term sheet (May 11) expands eligibility for direct access to a total of 86 local governments, but important parts of the country and economy remain overlooked.[7] We are sympathetic to the Federal Reserve's apparent desire to limit the number of potential counterparties due to operational constraints and understand their approach to permit eligible issuers to provide indirect financing to local governments, but it is an imperfect solution.

However, we do not have confidence that eligible issuers will be an effective mechanism for local governments to indirectly access the MLF. Most States and large cities—the eligible issuers—are facing their own fiscal challenges that will not likely be completely ameliorated by the MLF; therefore, it is highly unlikely they would share access to funds with other issuers. History has shown that States actually tend to push costs down to local governments when encountering fiscal challenges. It is unclear if States have the operational capacity to provide indirect access to the MLF, and some may not currently have the legal authority. Finally, it is unclear if eligible issuers would have to assume credit risk.

The Chamber has recommended to the Fed to provide an exclusive allocation of funds to be made available to noneligible issuers (e.g., 10 percent MLF borrowing by States reserved for cities and counties). Another approach may be an incentive structure that allows a State to increase its total borrowing authority if it provides financing to noneligible issuers. Finally, it is unclear if eligible issuers would have to assume credit risk. There will be little incentive to overcome these operational considerations if the MLF maintains a punitive funding rate.

The Chamber appreciates the Federal Reserve's role as a "lender of last resort," but encourages ongoing review of the funding rates in the MLF. Overly punitive penalty rates (i.e., in excess of market rates) will discourage take up in the program. The MLF should be cognizant of crowding out private capital, but should not lose sight of the dire fiscal situations of State and local governments that were otherwise responsible borrowers with reliable access to financing, before encountering revenue shortfalls due reasons such as delaying income tax filing or decreased sales tax receipts from depressed economic activity. MLF pricing remains too high except for the issuers with the lowest credit ratings. The penalty for AAA/AA/A rated debt is above the current abnormal spreads. The Federal Reserve should lower the funding rate, like it has with other 13(3) programs such as the Commercial Paper Funding Facility (CPFF), if take-up is lower than expected. A more logical target for pricing would be to set a penalty rate to prevailing spreads from January/February 2020 (before the market uncertainty from COVID–19).

Expanding the term of the loan to 3 years in the most recent term sheet is an improvement but may not be long enough. Clearly, the term of the loan should reflect the expected cashflow of the borrower. It is widely believed that it could take 3 to 4 years for the economy to recover, and for corresponding revenue levels to return, thus a term length closer to 5 years may be more appropriate.

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[7] *https://www.newyorkfed.org/medialibrary/media/markets/municipal-liquidity-facility-eligible-issuers*

Finally, it is important to remember that the Federal Reserve maintains authority to purchase and sell municipal securities in the open market. The Federal Reserve has established similar programs that cover every major asset class except for municipal securities and Congress recognized these liquidity issues in the CARES Act. At that time, there were unexplainable price dislocations that signaled issues with the functioning of the market. These issues have abated, but the market stability may be caused, at least partly, in the Federal Reserve's authority to intervene.

**Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility**

The Federal Reserve established two facilities to support credit to large employers—the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds and corporate bond portfolio Exchange Traded Funds (ETFs). The Chamber supports both the PMCCF and SMCCF as sources of liquidity to companies navigating business challenges as a result of the pandemic.

Based on the term sheets that were issued for the PMCCF and SMCCF on April 9, 2020, the Chamber asked the Federal Reserve to address a series of comments and questions regarding the initial terms and conditions surrounding eligible issuers, pricing and limits per issuer, and the documentation, disclosures, and operational mechanics required to access the PMCCF and SMCCF. We commend the Federal Reserve for beginning the process of bringing greater clarity to the terms through FAQs released on May 4, 2020, and May 26, 2020, and we expect further clarification as the Federal Reserve works to make both facilities fully operational. While the Federal Reserve has already begun purchasing ETFs through the SMCCF, we are still awaiting the PMCCF to become operational and the SMCCF to begin purchasing eligible corporate bonds.

Among the issues the Federal Reserve has not yet addressed is whether it would consider amending the ratings eligibility to include additional issuers. Many companies that are important to the economy do not qualify based on the current minimum rating requirement thresholds of BBB-/Baa3 as of March 22, 2020, or BB-/Ba3 at time of purchase if the issuer has been subsequently downgraded.

Since our original comments to Federal Reserve, it has also been brought to our attention a deep concern that the facilities will lose their effectiveness through its reliance on ratings from only the three major nationally recognized statistical rating organizations (NRSROs): Fitch Ratings, Inc., Moody's Investors Service, Inc., and S&P Global Ratings. Given that the PMCCF and SMCCF may be a critical source of support to larger enterprises that are ineligible for other programs, we encourage the Federal Reserve to consider including all SEC-registered NRSROs, not just those rated by major rating agencies.

In its updated FAQs posted May 26, 2020, the Federal Reserve subsequently decided to allow ratings from DBRS, Inc., Kroll Bond Rating Agency, Inc., and A.M. Best Rating Services, Inc. provided that the issuer seeking support from the PMCCF and SMCCF also has a rating from one of the three major NRSROs. While this is a move in the right direction, such policy will continue to exclude those issuers who require liquidity in these challenging times who do not also have qualifying rating from the major three major NRSROs. Moreover, the Federal Reserve has not provided an explanation of why three of the nine NRSROs have been excluded as acceptable ratings.

**Paycheck Protection Program Liquidity Facility**

The effectiveness of the Small Business Administration's Paycheck Protection Program (PPP) is a top priority of the Chamber. The PPP is a lifeline for countless small businesses, and it is therefore appropriate the Federal Reserve would offer liquidity to financial institutions issuing these loans. The Paycheck Protection Program Liquidity Facility (PPPLF) will free up room on the balance sheet so financial institutions can do even more support businesses and the economic recovery.

It is worth noting that uptake of the PPPLF has been relatively limited. Over 4 million PPP loans and over $500 billion in total credit, have been approved. However, according to data available from the Federal Reserve earlier this month, total advances outstanding under the PPPLF are approximately $29 billion.[8] While additional updates are forthcoming, further changes regarding the terms of the PPPLF may be necessary to ensure the facility achieves its intended effect.

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[8] *https://www.federalreserve.gov/publications/files/mlf-msnlf-mself-and-ppplf-5-15-20.pdf#page=3*

**Conclusion**

The lending programs under Title IV of the CARES Act are critical towards helping our economy recover from the sudden shock caused by the coronavirus pandemic. We believe that with some of the changes outlined above and with appropriate oversight from Congress and other bodies, these programs will reach their full potential, allow businesses to weather this storm, and help workers keep their jobs. Thank you again for the opportunity to testify—I would be happy to answer any questions you have.

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## STATEMENT OF DOUGLAS HOLTZ-EAKIN

PRESIDENT, AMERICAN ACTION FORUM

JUNE 2, 2020

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the privilege of appearing today to share my views on the implementation of Title IV of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. I wish to make three main points:

- A generous interpretation of publicly available data indicates that Treasury and the Federal Reserve have disbursed less than 1 percent of the $500 billion in emergency relief made available by Title IV of the CARES Act in the 2 months since passage of the Act.
- Treasury has provided no loans or loan guarantees under the powers granted it by Title IV to the intended recipients: airlines and businesses critical to national security. Although Title IV funding in theory backs five Federal Reserve emergency lending facilities, to date only one facility is operational that has purchased at maximum $1.8 billion in securities from capital markets.
- This slow pace stands in sharp contrast to lending made possible by other sections of the CARES Act and the other emergency lending facilities at the Federal Reserve. I can only speculate as to why, but it also suggests that there is considerable untapped economic support remaining from the CARES Act.

Let me discuss these in turn.

Title IV of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, provides for $500 billion in financial assistance to eligible businesses, States, municipalities, and tribes as emergency relief for losses related to the ongoing coronavirus pandemic. [1]

The Title subdivides this $500 billion into three categories:

- $29 billion in loans or loan guarantees to passenger and cargo air carriers, and associated industries, of which $0 appears to have been spent;
- $17 billion in loans or loan guarantees for businesses critical to maintaining national security, of which $0 appears to have been spent; and
- $454 billion (including any amounts unused from the above) for loans, loan guarantees, and other investments in support of Fed emergency lending facilities, of which $195 billion can be considered "committed" to backing these facilities, but only $1.8 billion appears to have been spent.

The first two categories empower Treasury directly to make loans or loan guarantees to eligible parties in accordance with additional terms and conditions set out by the CARES Act, including restrictions on share buybacks and executive compensation. [2] The third category provides a potential source of funding for the Federal Reserve's emergency lending facilities, with similar conditions applied.

A combined $1.8 billion of the $500 billion authorized by Congress in Title IV of the CARES Act has been spent as of the date of this testimony, 2 months after the CARES Act passed into law. This stands in comparison to the $513 billion in loan assistance [3] to small businesses administered by the Small Business Administration (SBA) in the form of Paycheck Protection Program (PPP) loans, as provided for by Title I of the CARES Act.

The remainder of this testimony will consider each category of Title IV relief in turn, followed by a comparative consideration of other Fed emergency lending and liquidity programs and the PPP for an overview of emergency relief as a result of

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[1] *https://www.banking.senate.gov/newsroom/press/cares-act-title-iv-summary*

[2] *https://www.americanactionforum.org/insight/financial-services-provisions-in-the-coronavirus-aid-relief-andeconomic-security-cares-act-final-version/*

[3] *https://www.americanactionforum.org/research/tracker-paycheck-protection-program-loans/*

the CARES Act as a whole and other efforts. In considering the implementation of Title IV, this testimony will cite at multiple points the findings of the first report[4] (the first Oversight Commission Report) of the Congressional Oversight Commission established by the CARES Act, published May 18, 2020.

**Relief for Passenger and Cargo Air Carriers**

The situation facing the airline industry today is unprecedented. The downturn in demand for commercial air transportation has been swift and dramatic. The International Air Transport Association predicts an almost 20 percent loss in worldwide passenger revenues, an astounding decline that would amount to more than $110 billion.

Internationally and domestically, airlines have already cut routes, reduced jobs, and even shut down operations.

But things are tough everywhere. Hotels and restaurants are empty, Broadway has been shuttered, and the entire private sector is faced with a sharp liquidity crisis. In contrast to those industries, however, airlines are a key part of the supply chain. Even passenger flights are not just for passengers—they are the backbone of the cargo industry. Roughly a quarter of all cargo is transported on those same passenger flights that are rapidly being grounded. The health of the transportation sector—airlines in particular—is inextricably linked to the health of our Nation's economy as a whole.

A disruption of airline service would ripple through the supply chain, creating further economic harm beyond the recent drop in demand. Businesses—and vital businesses in particular—still need to receive goods that they can then sell to the public. Airlines help ensure they receive those goods.

To be sure, intervening in a market economy is fraught. But this is no "bailout" of bad behavior. The airlines were in good financial shape: They had been raising compensation for employees and investing in their business models. This isn't bailing out bad behavior—and the moral hazard that engenders. It is throwing a lifeline of bridge finance to get past the pandemic and back to business, while continuing to support the broader economy.

Although Treasury has not released a detailed breakdown of funds disbursed directly to eligible airlines, the first Oversight Commission Report found that Treasury had not disbursed any of the $29 billion in funds available under this part of Title IV. As of the date of this testimony, there are no public data to suggest that this has changed. Airlines had a deadline of April 17 to apply for loans. The first Oversight Commission Report notes that Treasury did receive and is evaluating applications; it is frustrating that in the 6 weeks since no emergency loans or loan guarantees have been granted.

**Relief for Businesses Critical to National Security**

In addition to emergency relief directly for passenger and cargo airlines, all drafts of the CARES Act[5] included a carve-out specific to businesses critical to national security. Despite the fact that this clause was not a late addition to the CARES Act, the Act did not define this crucial term. It would be nearly 2 weeks before Treasury provided a definition setting out the intended beneficiaries of this relief in a set of questions and answers released on April 10.[6] Treasury required that applicants for this relief operate top secret military facilities or have the highest-rated priority contracts with the Department of Defense. This guidance has not been updated since.

Further, it was not until April 27, a month after the enactment of the CARES Act, that Treasury opened the online application system for businesses critical to national security to apply for relief under this section of CARES, and eligible businesses were only provided with 5 days during which to apply. Despite this, April 30 remarks by Undersecretary of Defense Ellen Lord indicate that 20 companies had applied to Treasury for relief as a business critical to national security.[7]

As with airline relief, the first Oversight Commission Report found that Treasury had not disbursed any of the $17 billion in funds available under this part of Title IV. As of the date of this testimony, there are no public data to suggest that this has changed; as above, it does not seem likely that this position would have changed given that the window for application closed on May 1. Why has Treasury not grant-

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[4] *https://www.toomey.senate.gov/files/documents/COC%201st%20Report__05.18.2020.pdf*

[5] *https://www.americanactionforum.org/insight/financial-services-provisions-in-the-coronavirus-aid-relief-andeconomic-security-cares-act-final-version/*

[6] *https://home.treasury.gov/system/files/136/CARES-Airline-Loan-Support-Q-and-A-national-security.pdf*

[7] *https://www.defense.gov/Newsroom/Transcripts/Transcript/Article/2172171/undersecretary-of-defense-asellen-lord-holds-a-press-briefing-on-covid-19-resp/*

ed relief as a result of any of these applications given that Treasury has at this point had a month to evaluate any applications?

**Support for the Federal Reserve's Emergency Lending Facilities**

Since the onset of the coronavirus pandemic, the Federal Reserve has moved more decisively and more quickly in a matter of weeks than in the previous century of its operation.[8] In addition to cutting its key interest rate to zero percent and embarking upon a considerable round of quantitative easing, the Federal Reserve has introduced or reintroduced nine emergency lending facilities—some de novo and some created by the Federal Reserve in the 2007–2008 financial crisis under the emergency 13(3) powers created by the 1913 Federal Reserve Act.[9] Of these nine facilities, five have or will benefit from equity investments by Treasury using the $454 billion appropriated by the CARES Act. The status of these facilities is provided below.

*Table 1 – Federal Reserve Emergency Lending Facilities*

| Announcement Date | Operational Date or Proposed | Facility | Funded by CARES? | Acronym |
|---|---|---|---|---|
| March 17 | April 14 | Commercial Paper Funding Facility | No | CPFF |
| | March 20 | Primary Dealer Credit Facility | No | PDCF |
| March 18 | March 23 | Money Market Mutual Fun Liquidity Facility | No | MMLF |
| March 23 | "Early May" | Primary Market Corporate Credit Facility | $50 Billion | PMCCF |
| | May 12 | Secondary Market Corporate Credit Facility | $25 Billion | SMCCF |
| | "June 17" | Term Asset-Backed Securities Loan Facility | $10 Billion | TALF |
| April 9 | April 16 | Paycheck Protection Program Liquidity Facility | No | PPPLF |
| | "Late May" | Main Street Business Lending Program | $75 Billion | |
| | "Late May" | Municipal Liquidity Facility | $35 Billion | |

Source: The American Action Forum

A total of $195 billion as authorized by Title IV of the CARES Act has been committed by Treasury and the Federal Reserve to support five emergency lending programs. Before even considering the success of these five programs, however, it is immediately obvious that the residual $259 billion ($305 billion if the available funds to airlines and businesses critical to national security are also considered) remains unallocated. Two months after the passage of the CARES Act over half of the funds appropriated by Congress are not even committed, or available, to a Fed emergency program, even theoretically; this is funding that could support trillions of dollars of liquidity.

Of the five emergency programs nominally backed by CARES funding, only one program is operational as of the date of this testimony, the Secondary Market Corporate Credit Facility (SMCCF), which alongside the Primary Market Corporate Credit Facility (PMCCF) is designed to support the credit markets by providing liquidity for outstanding corporate bonds. The SCMMF in particular will only purchase exchange-traded funds (ETFs) with an investment-grade rating prior to the pandemic whose rating has since fallen to "junk" (at least BB-/Ba3). The number of firms to whom this applies is extremely small, with one analysis suggesting that only $50 billion in eligible high-yield bonds are available for purchase.[10]

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[8] *https://www.americanactionforum.org/insight/timeline-the-federal-reserve-responds-to-the-threat-of-coronavirus/*

[9] *https://www.federalreserve.gov/aboutthefed/fract.htm*

[10] *https://www.advisorperspectives.com/commentaries/2020/05/26/the-feds-corporate-bond-buying-programsfaqs?topic=covid-19-coronavirus-coverage*

The most recent Fed report to Congress on the status of the SMCCF was made before the SMCCF was functioning and as a result has no transaction data to report.[11] Although the first Oversight Commission Report notes that "on May 12 the [special purchase vehicle] began to make purchases of ETFs," as of the date of this testimony the Federal Reserve has not made available to the public data specific to the volume of purchases by the SMCCF. In its weekly statistical release (H.4.1, Factors Affecting Reserve Balances), however, the Federal Reserve reported as of May 21, 2020, a $1.8 billion balance held by the Corporate Credit Facility special purchase vehicle through which the SMCCF and the PMCCF operate and will operate.[12] This $1.8 billion, it can be reasonably assumed, represents the balance sheet of the special purchase vehicle and therefore it can be deduced that the SMCCF has about $1.8 billion in ETFs, with funding presumably backed by Treasury.

Until the next report specific to the SMCCF is released by the Federal Reserve, the max that the $454 billion appropriated by Title IV appears to have disbursed appears to be $1.8 billion. Under the three sections in total of Title IV that appropriate $500 billion in emergency relief, at a generous interpretation, $1.8 billion, or less than 1 percent, appears to have been disbursed.

Going forward, this position will of course change. The proposed Main Street Lending Program will facilitate bank lending as much as $600 billion to businesses with under 15,000 employees or with 2019 annual revenues of up to $5 billion. Likewise, the Municipal Liquidity Facility will support as much as $500 billion in lending to State and local governments. Both programs, due to be operational very shortly, will in addition to the other Fed programs support trillions of dollars of liquidity. Both programs, however, designed to be key elements of the Federal Reserve's emergency lending, will have at best only begun to operate 2 months after the enactment of the CARES Act.

**Non-Title IV Lending and Relief**

The focus of this hearing is Title IV of the CARES Act. It is interesting to note, however, the sharp difference between execution under Title IV and the Paycheck Protection Program (PPP) as administered by the Small Business Administration with the assistance of Treasury. The SBA has supported over $500 billion in lending to small businesses impacted by the pandemic. The PPP has proven so enormously popular and necessary as to require available funding to be increased after the CARES Act was signed into law. The program has justifiably come under some criticism, and in particular many questions remain outstanding as to the format and nature of loan forgiveness. Despite these flaws I have stated that the PPP is the best part of the CARES Act.[13] The SBA has facilitated the largest single support for the economy for the month of April. That such enormous sums were distributed to businesses in need at all, let alone so quickly, remains extraordinary. This is not even the only relevant section of the CARES Act. Other sections provide the same industry-specific assistance specifically to the airline sector as seen in Title IV; the most recent figures show that Treasury has disbursed at least $12.4 billion[14] to 93 air carriers via the Payroll Support Program set up elsewhere in CARES.

Similarly, the Federal Reserve has acted with outstanding haste to attempt to balance negative forces in the economy. In addition to lowering the Fed Funds rate to zero percent and its quantitative easing efforts, the Federal Reserve acted with great speed to loosen capital restrictions on banks, making more capital available to businesses and individuals in need.[15] All of the Federal Reserve's emergency lending facilities that are not backed in some way by Title IV are operational, and as of April 24 the Federal Reserve had provided $85 billion in funding to the market.[16]

**Conclusions**

It is clear that Treasury and the Federal Reserve are capable of decisive action both in the provision of direct loan support and by injecting capital into distressed markets. This makes the slow pace of execution under Title IV so striking.

The most charitable conclusion is that the Treasury and Federal Reserve are moving slowly to implement powers newly available to both. Broadly speaking, the Federal Reserve emergency lending facilities that are currently operational either are

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[11] *https://www.federalreserve.gov/monetarypolicy/files/pmccf-smccf-talf-4-28-20.pdf#page=3*

[12] *https://www.federalreserve.gov/releases/h41/current/*

[13] *https://www.americanactionforum.org/daily-dish/in-defense-of-the-ppp/*

[14] *https://home.treasury.gov/news/press-releases/treasury-implementing-cares-act-programs-for-aviation-and-national-security-industries*

[15] *https://www.americanactionforum.org/insight/timeline-the-federal-reserve-responds-to-the-threat-ofcoronavirus/*

[16] *https://www.federalreserve.gov/publications/reports-to-congress-in-response-to-covid-19.htm*

or have much in common with the emergency lending facilities employed during the previous financial crisis. The Federal Reserve has moved much more slowly on new facilities, most particularly the Main Street Lending Program, that represent such a significant departure from the ordinary business of the Federal Reserve.

It must be assumed that Treasury and the Federal Reserve have determined that the safest course for Title IV is to neither move fast nor break anything in such substantially new territory. At any rate, that such a significant portion of the CARES Act remains unused seems to suggest that the CARES Act can provide considerable additional support to the economy and that this unused authority should enter into the calculus governing any new pandemic-related legislation.

Thank you, and I look forward to your questions.

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## STATEMENT OF HEIDI SHIERHOLZ

SENIOR ECONOMIST AND DIRECTOR OF POLICY, ECONOMIC POLICY INSTITUTE

JUNE 2, 2020

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to testify today. My name is Heidi Shierholz and I am a senior economist and the director of policy at the Economic Policy Institute (EPI) in Washington, D.C. EPI is a nonprofit, nonpartisan think tank created in 1986 to include the needs of low- and middle-wage workers in economic policy discussions. EPI conducts research and analysis on the economic status of working America, proposes public policies that protect and improve the economic conditions of low- and middle-wage workers, and assesses policies with respect to how well they further those goals. Prior to joining EPI in 2017, I was the Chief Economist at the U.S. Department of Labor.

Title IV of the CARES Act provides $500 billion in emergency relief in order to support liquidity for eligible businesses, States, and municipalities affected by COVID–19. This assistance has been referred to as "bailouts."

While numerous concerns have been raised about the lending programs in Title IV, the biggest problem with them has arguably not received enough attention: Title IV primarily takes the form of loans, not grants. In an economy where nonessential activity has been largely shut down for an extended period—by a widespread, justifiable fear of contracting a potentially lethal virus and by official lockdown measures—it is not illiquidity that is often the primary problem. Many businesses, States, and municipalities are seeing their revenues drop to such an extent that the real threat they face is not illiquidity, it is bankruptcy. Further, households are facing huge challenges just meeting basic needs in the wake of the shutdown, and having a large tranche of aid that does nothing to directly alleviate their suffering—or to keep them from needing to slash their spending, making the recession worse and the recovery weaker—is a huge missed opportunity.

Relatedly, the $454 billion in this Title that is designated for supporting facilities established by the Federal Reserve to provide liquidity is money that is solely for insuring the Federal Reserve against losses in the event borrowers default on their loans. This is not solving any meaningful economic problem. It is likely that in the end, this money won't even be "spent." It is more likely that the Fed will see gains, not losses, on these loans. This was the conclusion of the Congressional Budget Office in determining that there was no deficit impact from the $454 billion appropriation.[1] However, the implication of no losses on this lending is also that the lending will provide very limited concrete economic stimulus, and instead will simply act as insurance policy to backstop the normal functioning of credit markets through the pandemic. While this provides some benefit, it means that this $454 billion is not actually going toward boosting incomes and stimulating the economy during this recession. Most destructively, the high "cost" associated with this Title could well have convinced policymakers and the public that substantial aid is being provided and, as a result, reduced their sense of urgency in providing more direct aid.

Any displacement of direct aid caused by the allocation of the $454 billion in this Title would have horrifying consequences for working families. Further, it signifies the continuation of a very damaging theme in policymaking over the past decade or more: Congress outsourcing responsibility for fighting recessions to the Federal Reserve. The tools the Federal Reserve has for fighting recessions have become extremely weak—not just because what is primarily needed now are grants, not loans, but also because the Federal Reserve's main tool, lowering interest rates, doesn't go very far when interest rates are already near zero. The need for major fiscal policy

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[1] *https://www.cbo.gov/system/files/2020-04/hr748.pdf*

in fighting this recession could not be more urgent. But if policymakers and the public are convinced that the Federal Reserve can handle the emergency response and, as a result, a further, massive fiscal response is not forthcoming, we are virtually guaranteed to face an extended depression.

One example of Federal Reserve assistance that is well-intentioned and could potentially support benefits for the broad public but is fundamentally less effective than its fiscal counterpart is the Municipal Liquidity Facility (MLF) established by the Federal Reserve under Title IV to help State and local governments better manage cash flow pressures. State and local governments are currently forecast to be facing revenue shortfalls as large as $1 trillion in coming years.[2] These shortfalls demand fiscal aid to State and local governments, and the MLF cannot be viewed as any kind of substitute for grant aid to States and localities. The aid State and local governments need is not loans, but direct fiscal grants that will allow them to close their massive budget shortfalls—shortfalls that will otherwise force them to lay people off and enact deep budget cuts, given their balanced-budget requirements. It would be deeply misguided to argue that the existence of this lending facility means that States don't need direct aid because they can now borrow from the Federal Reserve—as has unfortunately been done by Administration officials.[3]

With that said, credit from the Municipal Lending Facility could be of use to States and localities in buying time to manage the fiscal impacts of the pandemic. However, the current restrictive MLF rules will limit its use even for this purpose. The 3-year term of MLF loans is much too short. It is extremely likely that States will still be facing fiscal gaps in 3 years, making them reluctant to use credit that is due at that time. Despite the fact that State and local governments are far more likely to repay loans than private businesses, the 3-year MLF loan term is shorter than the 4 year loan term granted to highly leveraged companies using the Main Street Lending Facilities, or the 5 year loan granted to airlines. Another barrier is the fact that MLF loans can only be taken out through the end of 2020. Because of the level of State budget shortfalls, various State legal restrictions and the mechanics of State budget cycles, many States will still need to use the facility during 2021. Finally, MLF credit is expensive. It is comparable in expense to what is being offered to private businesses through the Main Street Lending Facility, despite the fact that municipal credits are far safer than private credits and municipal credit finances key public services. Without changes in these rules, such as those proposed in the HEROES Act, the MLF will be even more severely limited in what usefulness it can provide to States and municipalities navigating the coronavirus crisis.

The public benefits of the private sector facilities in Title IV are also significantly limited by the notable lack of requirements or conditions that would link loans to the creation of social benefit, the maintenance of employment, or response to the Coronavirus pandemic. For example, the corporate credit facilities have apparently no requirements for borrowers to maintain employment or payroll or limit executive compensation. This means that companies could sell bonds to the Federal Reserve and use the proceeds for share buybacks or other increases in executive compensation while laying off their lower-paid workers. Conditions on the Main Street Lending Facilities are also deeply inadequate—for example, companies do not even need to attest that they will make an effort to keep workers, there is simply a toothless statement that companies "should" make "commercially reasonable" efforts to maintain employment.[4] Further, since there are no limits on the types of entities that could use these facilities, it is likely that highly aggressive and sophisticated entities such as large private equity firms will seek out opportunities to channel funding to reward capital owners instead of supporting workers and the response to the pandemic. Such uses of the facilities could effectively loot money from taxpayers. For example, a private equity fund could have a portfolio company borrow money from the Federal Reserve, transfer that money up to the private equity parent in the form of monitoring fees or other payments rather than using it to support employment, and then the private equity fund would not be responsible for repaying funds to taxpayers if the portfolio company went bankrupt. Given the lack of requirements or conditions that would link loans to the maintenance of employment, disclosure and transparency are profoundly important. Making transaction-level information on the identity of borrowers and the details of specific loans public is a crucial way

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[2] Josh Bivens, "A Prolonged Depression Is Guaranteed Without Significant Federal Aid to State and Local Governments", Working Economics Blog (Economic Policy Institute), May 19, 2020.

[3] C–SPAN, "Secretary Mnuchin Remarks to Reporters", published on April 20, 2020.

[4] Specifically, "an Eligible Borrower should undertake good-faith efforts to maintain payroll and retain employees, in light of its capacities, the economic environment, its available resources, and the business need for labor." See p. 27 of *https://www.bostonfed.org/mslp-faqs.*

to help ensure that borrowers use the funds to genuinely support the economy rather than simply seek profits for capital owners. Public transparency will help limit the extent to which companies can misuse funds. The Federal Reserve has announced that it will publish the names and details of participants in its facilities set up in the CARES Act. This effort should be monitored to ensure that the disclosures include detailed transaction-level information such as the identity of borrowers (including beneficial owners of legal entities), the terms of the loans, copies of the underlying deal documents, and the intended use of the proceeds.

The CARES Act also imposed some basic oversight of these programs, but given that President Trump immediately began undermining these provisions,[5] Congress should pass stronger oversight provisions.

The major exception in Title IV to the key concern that the Title primarily takes the form of loans, not grants—and also to the concern that the Title places virtually no conditions on the use of the funds—is with the aid directed toward industries related to passenger air travel and cargo air carriers (this is referred to as the "airline bailout"). This aid was largely comprised of direct grants, and it included prohibitions on layoffs, involuntary furloughs, stock buybacks, and limits on executive compensation. The conditions could have been even stronger—for example, many airlines are attempting to skirt the conditions by reducing hours and therefore pay—but the conditions have undoubtedly saved many jobs. Unfortunately, the airline bailout was a limited exception to the general approach employed in Title IV of unrestricted loans.

It is also important to note that the outsourcing of rescue policy to the Federal Reserve has tended to channel Government assistance toward the wealthiest in our society. The monetary policy tools used by the Federal Reserve work indirectly through support for capital markets, not directly through fiscal assistance to those who need it the most. We have seen this pattern during the response to the COVID–19 crisis, where Title IV of the CARES Act provided enormous support to investors and capital owners. Given that the richest 10 percent of households control 84 percent of the total value of stocks,[6] the most direct effect of this support primarily benefited the wealthy. Policymakers must keep this fact at the forefront of their minds in the current negotiations on additional fiscal relief. The Federal Government must step up to minimize the suffering of low- and middle-income households as a result of the pandemic, as it has stepped up to minimize the negative effect of the coronavirus recession on the wealthy.

Further, if Congress doesn't step in with substantial additional fiscal relief, the country will almost surely face an extended depression. The official unemployment rate was 14.7 percent in mid-April, up from 3.5 percent in February. And even though that is the highest unemployment rate since the Great Depression, it is not actually reflecting all coronavirus-related job losses. In fact, as of mid-April, only about half of people who were out of work as a result of the virus were showing up as unemployed. About a quarter were being misclassified—they had been furloughed and should be counted as unemployed and on temporary layoff, but were instead being counted as "employed but not at work." Another quarter were being counted as having dropped out of the labor force altogether, rather than unemployed. This is because jobless people who have not been furloughed are only counted as unemployed if they are actively seeking work, which is currently impossible for many. If all workers who are out of work as a result of the virus had shown up as unemployed, the unemployment rate would have been 23.5 percent in mid-April instead of 14.7 percent. And since mid-April, another nearly 18 million workers have applied for unemployment benefits. Typical forecasts predict that the official unemployment rate will be around 25 percent in June, that it will still be in double digits at the end of 2020, and that it will be around 8 percent at the end of 2021. As a reminder, the highest the unemployment rate ever got in the early 1990s downturn or the early 2000s downturn was 7.8 percent.

Job loss is occurring across virtually the entire economy, but it is hitting low-wage sectors particularly hard (think restaurants, bars, hotels, personal services, and brick and mortar retail). Because of disparate access to education, occupational segregation, discrimination, and other labor market disparities, black and Latinx workers and women of all races are more concentrated in these jobs. As a result, they are facing greater job loss. Further, many people who have managed to hang on to their jobs have seen their hours cut (think of restaurant workers whose place of work is now only doing takeout). The number of people who want full-time hours

[5] The White House, "Statement by the President", March 27, 2020.

[6] Edward N. Wolff, "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" National Bureau of Economic Research Working Paper no. 24085, November 2017.

but are working part-time because their employer didn't have enough work for them has more than tripled since the coronavirus crisis began.

The one bright spot in the available jobs numbers is the fact that as of mid-April, about three-quarters of the officially unemployed—and about two-thirds of all workers who are out of work as a result of the virus—report that they expect to be called back to the jobs they had before the coronavirus shock.

Whether they will actually be called back or whether those furloughs will turn into layoffs is the fork in the road we are standing in as a Nation right now.

If effective public health measures are enacted—widespread testing, contact tracing, self-isolation of those who have been exposed, and mask-wearing—nonessential sectors of the economy that have been shut down will be able to successfully reopen in phases, making it possible for the country to start climbing out of this recession. Simply lifting the lockdowns without these public health measures will not lead to a successful reopening because most people will remain afraid of contracting a potentially lethal virus and will understandably be unwilling to fully reengage in the economic activity that is a prerequisite for recovery.

But that alone will not be enough. If the Federal Government does not provide sufficient direct aid, then as the economy begins to reopen, confidence and demand will be not be high enough for businesses to actually need to call furloughed workers back, and those furloughs will turn into permanent layoffs.

The most important provision to help generate a rapid recovery is substantial aid to State and local governments. As mentioned above, State and local governments are currently forecast to be facing revenue shortfalls as large as $1 trillion in coming years.[7] Further, due to balanced budget requirements, these Governments are tightly constrained from taking on large amounts of debt to maintain spending in the face of this downward shock to their revenues. The result is intense pressure for large cutbacks in public spending by State and local governments in coming years. Such cutbacks would be devastating to the cause of restarting the economy, even if the virus has completely abated. We know how devastating these cutbacks would be because we have lived through the mistake of allowing them to drag on growth in the recent past. The lack of sufficient aid to State and local governments in the aftermath of the Great Recession led to State and local spending austerity that delayed the recovery from the Great Recession by over 4 years.[8] As of mid-April, State and local governments had already lost more jobs than they did during the entire Great Recession. In this crisis, if Federal aid is passed that is sufficient to close the enormous revenue shortfalls the economic crisis will cause for State and local governments, it will save 5–6 million net jobs in the public and private sector by the end of 2021. Without this aid, those jobs will be lost.

It is also crucial to extend the expansions of unemployment insurance that were part of the CARES Act well past their current expiration dates. The modifications the CARES Act made to the Nation's unemployment insurance (UI) system are a crucial lifeline for tens of millions of American workers. Aside from temporarily expanding the eligibility criteria for who qualifies for unemployment benefits through the end of the year and providing an additional 13 weeks of State UI benefits, the CARES Act also provided an extra $600 per week in UI payments through the end of July.

This $600 top-up has been fiercely criticized by some since the Act passed, but the criticism is either ill-informed or in bad faith. The extra $600 has been by far the most effective part our economic policy response to the coronavirus shock. It is perhaps worth noting that my preference would have been for a 100 percent replacement rate up to a quite generous maximum benefit, instead of a flat-rate increase. But decades of disinvestment in the administrative capacity of State UI offices left them incapable of flexibly calculating each new applicant's benefit amount with a 100 percent replacement rate. (Case in point: most offices are still using the 1970s-era programming language COBOL to run their computers[9]). State offices are capable of administering a flat-rate increase, however. So, policymakers in Congress appropriately chose the second-best solution of picking a flat-rate increase in benefits that would leave the average worker (and most workers overall) with 100 percent of their precrisis earnings.

But the necessity of the one-size-fits-all approach means that workers who earned less than the average worker before the crisis will receive benefits that are some-

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[7] Josh Bivens, "A Prolonged Depression Is Guaranteed Without Significant Federal Aid to State and Local Governments", Working Economics Blog (Economic Policy Institute), May 19, 2020.

[8] Id.

[9] Alicia Lee, "Wanted Urgently: People Who Know a Half Century-Old Computer Language So States Can Process Unemployment Claims", CNN, April 8, 2020.

what higher than 100 percent of their previous wage. Many conservatives claim this is somehow an economic disaster, but in fact, for the purpose of generating a rapid macroeconomic recovery from this shock, the more money getting into the pockets of low- and middle-wage workers, the better.[10] These workers are likely to be in households that will have little choice but to quickly spend any unemployment benefits on necessities, boosting the economic recovery. Dropping the additional top-up would mean unemployed workers would have to survive on a maximum of half of their prior earnings—and many on much less than half, given the extremely low caps on regular State UI benefits. Without the top-up, unemployed workers and their families would have to severely cut back on their spending, hampering the recovery.

The primary complaint against the extra $600 is that it will impede the otherwise efficient functioning of low-wage labor markets. But of course, the labor market is not "efficient," instead it has been rigged against low- and moderate-wage workers for decades, and precrisis earnings for these workers were far too low, on both moral and efficiency grounds.[11] Further, the official unemployment rate will likely be well over 20 percent at the end of July—and the unemployment rate that takes into account everyone who is out of work as a result of the virus will be even higher. Even without the epidemic, it would be terrible policy on humanitarian and economic grounds to use cutbacks to UI benefits that make them too stingy to live on as a cudgel to demand people attempt to find a job quickly when the labor market is that weak.

Some have pointed to stories of low-wage businesses trying to reopen reporting they can't find workers because potential employees can make more on unemployment benefits and not expose themselves to health risks on the job. Policymakers could easily solve this potential "incentives" problem by allowing laid-off workers keep their extra $600 weekly payment (or at least some increment of it) even after they find a new job, strengthening health and safety standards so workers know their workplaces are required to be as safe as possible, and offering premium pay to frontline workers who face risk on the job.

It is also important that none of these provisions (for example, emergency unemployment compensation provisions and aid to State and local governments) are allowed to expire at arbitrary end dates, and instead that automatic triggers for their expiration are enacted. There is an enormous amount of uncertainty around how the economic impact of the coronavirus will unfold. Assigning arbitrary end dates to provisions to sustain the economy makes little sense when the process could be handled automatically, by having provisions phase out as the unemployment rate or the employment-to-population ratio decline. Using automatic stabilizers would not be any more expensive than the cumulative cost of multiple extensions of the programs in the bill—but it would prevent destructive lapses in critical programs while Congress negotiates extensions, and it would alleviate corrosive uncertainty by giving businesses, States, and households crucial confidence around budgeting and planning.

If the Federal Government provides sufficient aid during this crisis so that people's incomes don't drop dramatically (even if they have been unable to work), so that businesses stay afloat (even if they have been totally or significantly shuttered), and so that State and local governments whose tax revenues are plummeting are not forced to make drastic cuts that will hamstring the economy, then today's furloughed workers could get back to their prior jobs and the recovery could be rapid because confidence and demand would be relatively high. But if the Federal Government doesn't act, then those furloughs will turn into permanent layoffs and the country will face an extended period of high unemployment that will do sweeping and unrelenting damage to the economy and the people and businesses in it. Federal lawmakers get to choose which path we take.

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[10] Josh Bivens, "What Should We Know About the Next Recession?", Economic Policy Institute, April 2019.

[11] Josh Bivens and Heidi Shierholz, "What Labor Market Changes Have Generated Inequality and Wage Suppression?", Economic Policy Institute, December, 2018.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM THOMAS QUAADMAN**

**Q.1.** Last year, many CEOs of the companies you represent pledged that they would start to consider that their companies exist not only to serve shareholders, but also their customers, suppliers, and workers. Right now, some of the CEOs who endorsed this statement have furloughed workers during the pandemic, but continued to issue dividends to their shareholders. Will the U.S. Chamber take the position that companies should halt all dividends and capital distributions until they increase pay for their employees? Yes or no?

**A.1.** As stated in my written testimony for the hearing, the economic crisis caused by the pandemic is not the fault of businesses that have been ordered to shut down or severely limit their operations. The primary, and appropriate, consideration of Congress when it passed the CARES Act was speed—getting money into the economy quickly so that millions of businesses don't collapse, and employees are left without a paycheck. The CARES Act is not perfect, but by and large it served its core purpose. The Chamber has urged the Treasury Department and Federal Reserve to be extremely cautious when applying the corporate governance and shareholder distribution prohibitions included in the CARES Act. Using this crisis as a reason to shoehorn certain policy objectives will only make it less likely that struggling businesses access many of these programs.

Further, the argument in favor of a blanket restriction on dividends ignores those who depend on dividends for income, including retail investors and beneficiaries of retirement plans. Taking into account the needs of other constituencies does not mean that businesses should harm their own shareholders at every opportunity. This economic downturn is unprecedented in its swiftness and severity—Congress and regulators should not make it worse.

**Q.2.** Will the U.S. Chamber take the position that all of its member companies must publicly disclose whether they have received loans through any Federal Reserve lending facility or other funding from the CARES Act and the amount of such funding? Yes or no?

**A.2.** As stated in my written testimony, robust oversight of the CARES Act programs is critical to instilling public confidence in relief efforts, and to identifying and holding accountable those who fraudulently attempt to access the facilities. But "shaming" a business teetering on the brink because that businesses happens to operate in a particular industry is not an appropriate role for policymakers and will only disincentivize companies from accessing relief facilities. We have no objection to public disclosure of borrowers from CARES Act facilities so that the public is informed. The Chamber has consistently supported oversight mechanisms in times of crisis when taxpayer dollars are used as a lifeline for the economy. For example, in 2009 the Chamber support the Troubled Asset Relief Program (TARP) Accountability Act which provided a mechanism for Government and the public to easily track and monitor disbursement of TARP funds in the wake of the 2008 financial crisis. As we stated then, "This level of transparency will help avoid the misuse of funds and develop a level of confidence that is

integral to the success of TARP." We believe the same should apply to oversight of the CARES Act.

**Q.3.** During the hearing, I asked you about companies spending millions of dollars on ad campaigns to thank essential workers and assure them that "We are all in this together." Saying "thank you" is not enough. Most of these workers earn relatively low wages, and many companies who provided small temporary wage increases are now pulling them back. If we are really all in this together, will the U.S. Chamber take the position that its member companies must permanently and substantially increase the pay of all workers? If not, why not?

**A.3.** The most important thing for American workers over the last few months has been to preserve their paychecks, and we believe that the CARES Act facilities—particularly the Paycheck Protection Program—have done an effective job at that. While the Chamber is more than willing to engage in discussions with lawmakers regarding a national minimum wage, we strongly oppose efforts to tie such a discussion to businesses (many of which are struggling to survive) that availed themselves of programs passed almost unanimously by Congress. Moreover, as the Chamber pointed out in a letter last year to the House, the Congressional Budget Office has estimated that an increase to $15/hour would result in as many as 3.7 million workers losing their jobs. An increase to $10, on the other hand, would raise the wages for approximately 3.5 million workers with minimal job losses. We are happy to continue working with policymakers to ensure that American workers receive fair wages and to avert any national mandate that would cost millions of jobs.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM THOMAS QUAADMAN**

**Q.1.** Should we have used the Defense Production Act to rebuild our strategic national stockpile of medical supplies?

**A.1.** The Chamber believes the Defense Production Act (DPA) offers tools that can be useful to address specific industrial bottlenecks and other problems such as price gouging that can arise during a pandemic, including this one. The Chamber has supported the targeted use of the DPA, but also recognizes it is not a complete panacea. For example, the DPA is not a substitute for a close public–private partnership focused on dramatically boosting production of medical goods and ensuring their swift and efficient delivery to where they are most needed.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR JONES FROM THOMAS QUAADMAN**

**Q.1.** The Paycheck Security Program would cover the wages and benefits of furloughed or laid off employees of affected businesses and nonprofits that have experienced a drop in revenues of at least 20 percent. Grants will cover salaries and wages up to $90,000 for each furloughed or laid off employee, plus benefits, as well as up to an additional 20 percent of revenues to cover fixed operating costs such as rent, utilities, insurance policies, and maintenance.

Companies receiving these grants must commit to a number of restrictions including maintaining pay and benefits of rank-and-file workers and offering to bring back workers laid off since February 1st the opportunity to go back to participate in the program at prior level of compensation. Additionally, the bill would decrease the burdens on financial institutions that are overwhelmed by SBA loan programs.

Can you share your thoughts on the Paycheck Security Act? Do you believe this will provide business owners who missed out on the Paycheck Protection Program (PPP) security?

**A.1.** The Chamber appreciates all the various proposals to provide additional assistance to small businesses whose revenue has been constrained by stay-at-home orders, and social distancing requirements. Recently the Chamber communicated its recommendations for a Phase IV bill to the Congress, below is what the Chamber recommended to help support small and midsize employers. We would be happy to discuss with you how the Paycheck Security Program might achieve these goals.

Excerpts from July 16, 2020, letter to the President and Members of Congress available at: *https://www.uschamber.com/letters-congress/us-chamber-letter-the-phase-4-coronavirus-relief-legislation*

> Employers across the country continue to struggle with the economic fallout caused by the coronavirus. The impact, however, is not the same across industries. As of June, some sectors of the economy have essentially restored all the jobs lost since February. Other sectors—particularly those most impacted by closures and social distancing requirements where remote work is not possible—have faced catastrophic revenue and job loss. As part of the CARES Act, Congress appropriately provided broad-based support for employers through the Paycheck Protection Program (PPP), the Economic Injury Disaster Loan (EIDL) program, the Main Street Lending Facilities, the Employee Retention Tax Credit, and other tax provisions.
>
> At this time, it is appropriate for Congress to take a more targeted approach: closing the gaps that existed in the CARES Act programs and providing additional relief for those businesses that cannot return to more normal operations as a result of the social distancing requirements necessary to prevent the spread of COVID–19.
>
> Specifically, the Chamber urges Congress to consider the following proposals:
>
> Closing the CARES Act Gaps:
>
> - While the PPP was intended to assist all small business employers, including nonprofits, nonprofits who are not organized as 501(c)(3) organizations have been excluded from the program.
> - Congress should extend the deadline for applying for PPP funds through the end of the year and make all nonprofit employers eligible to apply for a loan.

- Congress should also make the PPP loan forgiveness process easier for the smallest small businesses by automatically forgiving loans under $150,000 or $250,000.
- The CARES Act prohibited an employer from receiving both a PPP loan and an employee retention tax credit. While no employer should be able to receive a PPP loan and a tax credit for the same expense, allowing PPP borrowers to access employee retention tax credits after exhausting their PPP loans will help small businesses who continue to face constrained revenue.
- In too many cases, small businesses in low-income and rural areas, as well as those without traditional banking relationships—including minority-owned businesses had difficulty accessing the PPP. The bipartisan Recharge and Empower Local Innovation and Entrepreneurs Fund (RELIEF) for Main Street Act would provide $50 billion to seed and scale locally relief programs for small employers. The Chamber urges Congress to pass this initiative.
- Replenish the SBA's Economic Injury Disaster Loan (EIDL) program and require SBA to remove the $150,000 loan cap for the program that is authorized to provide loans up to $2 million.

Providing Additional Relief for Employers:

- Congress can build on the aid provided in the CARES Act to help employers address urgent liquidity needs, including by allowing the monetization of additional tax attributes like general business credits. This would provide businesses timely access to tax benefits existing on their books. In addition, Congress should provide tax relief for losses due to the Coronavirus pandemic; and modify international tax provisions to maximize the benefits of CARES Act tax relief.
- The CARES Act created an Employee Retention Tax Credit (ERTC) that provided an effective $5,000 refundable tax credit to employers negatively impacted by the economic fallout from the pandemic. Congress should increase the size of the credit, make the credit more flexible by allowing small and midsize employers to claim the credit irrespective of whether the employee is "providing services," and expanding the universe of eligible employers by reducing the reduction in gross receipts required to access the credit. Congress can simultaneously make the expanded credit more targeted by reducing the benefit for employers who are experiencing less of a revenue loss.
- While the CARES Act mostly focused on aiding small businesses with their payroll costs, for many, their fixed expenses, like rent, are a significant burden. At the same time, revenue is constrained as a result of social distancing requirements. Congress should consider a modest addition to the ERTC for ERTC eligible employers to cover a limited amount of fixed costs.
- As part of the CARES Act, numerous tax provisions were enacted on a temporary basis to help businesses address liquidity issues. Given the expected time required to return to the

prepandemic economy, a further extension of these tax provisions is warranted.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM DOUGLAS HOLTZ-EAKIN**

**Q.1.** Why is it important that Congress provide funds for local governments hard hit by health and economic crises?

**A.1.** Local governments have been deeply affected on both sides of their budgets. Due to the demands of meeting the public health mission, local expenditures for first responders, frontline health personnel and health care costs, in general, spending has risen. These expenditures are in the national interest and it is appropriate that the Federal taxpayer carry this burden (at least in part). At the same time, revenues have fallen sharply as the economy has contracted. The major issue facing Congress is whether to provide compensatory funds directly through the appropriations process or to have localities rely on the Municipal Liquidity Facility.

**Q.2.** How can the Federal Reserve provide loans and buy municipal bonds from communities with smaller populations?

**A.2.** The Federal Reserve possesses wide latitude in the creation and disposition of emergency lending programs under its Section 13(3) powers. The Fed could either create a new facility under this authority providing loan support specifically targeting these smaller populations, or amend the Municipal Liquidity Facility to permit access to the program to these communities, an action it has already performed twice.

**Q.3.** How can the Fed make a determination of credit quality from local governments that may not have rated bonds?

**A.3.** I do not believe that it can. Further, I do not believe that it should, nor does it in fact at this point need to. The Municipal Liquidity Facility is not currently designed to be accessible to States and municipalities without an investment grade rating (although allowance is made for entities who had, but have lost this status since the onset of the pandemic). Local governments that are not investment grade, or are unrated, are not covered by the Fed's emergency lending programs.

**Q.4.** Nevada currently has the highest unemployment rate in the Nation—30 percent. What long term impacts do you see on Nevada and other States that rely on tourism and may have a higher sustained unemployment rate?

**A.4.** The outlook depends almost entirely on the pace of development of therapeutics and vaccines, and thus the capacity to restore the confidence of the public in using the hospitality and leisure sector services. Barring restored confidence, it seems unlikely that this sector will be restored to its former scale and Nevadans will be forced to diversify their economy to employ residents or suffer an out-migration of their population.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR JONES FROM DOUGLAS HOLTZ-EAKIN**

**Q.1.** The Paycheck Security Program would cover the wages and benefits of furloughed or laid off employees of affected businesses and nonprofits that have experienced a drop in revenues of at least 20 percent. Grants will cover salaries and wages up to $90,000 for each furloughed or laid off employee, plus benefits, as well as up to an additional 20 percent of revenues to cover fixed operating costs such as rent, utilities, insurance policies, and maintenance.

Companies receiving these grants must commit to a number of restrictions including maintaining pay and benefits of rank-and-file workers and offering to bring back workers laid off since February 1st the opportunity to go back to participate in the program at prior level of compensation. Additionally, the bill would decrease the burdens on financial institutions that are overwhelmed by SBA loan programs.

Can you share your thoughts on the Paycheck Security Act? Do you believe this will provide business owners who missed out on the Paycheck Protection Program (PPP) security?

**A.1.** I have seen no evidence that financial institutions are overwhelmed by PPP applications. Nor do I see the need to create an additional program with the desired aim of providing relief in a very similar if not identical manner to the PPP to the same population of businesses. The PPP is not perfect, and there is room for Congress to improve the program (most particularly in clarifying the rules relating to forgiveness). But I do not see the value in duplicating the efforts of the PPP, doubly so when the PPP program still has at least 20 percent of funding available.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA FROM DOUGLAS HOLTZ-EAKIN**

**Q.1.** What is the fastest and most efficient mechanism to provide financial assistance to small and medium-size businesses? And what is the fastest and most efficient way to provide relief to families?"

**A.1.** In a very practical sense, mass disbursement of financial assistance to small and medium-sized businesses has already been achieved. The Paycheck Protection Program (PPP) has been the single most effective aspect of the CARES legislative package, and as noted in my testimony singlehandedly was the largest support for the economy for the month of April. Getting over $500 billion to businesses in need in a matter of weeks is an enormous credit to Congress, Treasury, the Small Business Administration (SBA) and our Nation's banking system. Of course, the program is not without flaw, but by any objective standard it has proven to be a lifeline to thousands of Main Street businesses; the program is an unqualified success if measured solely against the metrics of speed and efficiency.

If by your question you envisaged a scenario where further billions in financial aid are to be disbursed, the most efficient mechanism appears to me to be to continue funding the PPP and make both required and beneficial programmatic changes, including, for example, potentially allowing a second loan to be taken out. Al-

though the system is not perfect, it has demonstrably proved itself to be effective, and any potential future efforts should use not just the key learnings from this process but also take advantage of the infrastructure and network of lenders the SBA has so hastily acquired. Any other effort, even efforts more preferable in theory to myself or critics of the PPP, would be unlikely to be as fast or as efficient as the PPP at this point due to the unique experience the SBA has gained.

Congress enacted three new laws in response to the COVID–19 pandemic that provide myriad means of assistance for individuals and families. Some provisions provided for cash transfers, while others offer forbearance for missing payments or limit penalties for withdrawing money from existing accounts. The effect is to ensure that individuals have access to more cash, receive adequate nutrition, and that they can receive testing for COVID–19. AAF has catalogued those programs here. Tailoring assistance to specific needs—household liquidity, unemployment, and other challenges—provided more effective assistance than any single individual program.

Going forward, as the public health and economic situations change, so too will the needs of individuals. Congress' ability to again respond quickly and specifically to those needs will be important. In preparation, Congress should start working to assess what those needs will be in the future, and how current needs might change. For example, as treatments and vaccines are developed, individuals will need to be able to access and afford them. Some businesses and perhaps even entire industries may never return, or at least not in any manner that closely approximates their existence before the pandemic; as such, many individuals will need to find different jobs requiring different skills and may need training to do so. Children may be required to continue learning from home next year; many will need additional resources to be successful and it may require taking action now in order to be prepared. To the extent that Congress can anticipate needs and get ahead of coming crises, the consequences will be much less severe.

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## RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM HEIDI SHIERHOLZ

**Q.1.** Even before this pandemic, many Americans were barely making ends meet. Corporations were not paying people a living wage, while their executive and shareholder compensation has continued to increase. How will this persistent wealth gap between corporate executives and workers, and black and white workers, affect our economy if we continue down this path?

**A.1.** The persistent gaps between corporate executives and their workers, and between black and white workers is not just a moral issue, it is bad for the economy as well. Growing evidence finds that for many, economic outcomes are tied to who their parents are and what neighborhood they live in, not how talented they are and how hard they work. High inequality means those at the top are able to hoard opportunity, obstructing the ability of many to contribute to the economy and society to their fullest potential, and this hurts productivity and growth. Growing evidence also finds

that rising inequality bestows its beneficiaries with economic power and political influence that allows them to subvert the institutions that support a fair and well-functioning economy and manipulate economic growth in their favor, from minimizing the taxes they face to regulatory changes that protect their interests. This undermines a fair balance of power in the economy and, as a result, leads to inefficiencies that lower productivity and drag on growth and stability. Growing evidence also finds that rising economic inequality affects how much money in the economy is used for consuming versus saving. In particular, rising inequality has translated into consumption that is lower than it otherwise would have been, since gains in the last four decades have gone largely to those at the top of the income distribution, who are less likely to spend extra money. However, greater aggregate savings has not led to investment-led growth either, because firms know there is an increasing share of consumers who don't have money to spend. This drags down and distorts growth.

**Q.2.** The number of unemployment claims in just the past two months has far exceeded the total jobless claims during the Great Recession. Could you discuss the severity of the unemployment, labor market, and economy today versus the Great Recession? How should these differences inform our policy responses to the economic crisis resulting from the coronavirus pandemic?

**A.2.** I am writing this response in September of 2020, six months into the COVID crisis in the U.S. labor market. Though the labor market has added a substantial number of jobs in each of the last 4 months (May–August), we lost so many jobs in March and April that we are still 11.5 million jobs below where we were in February. This is far more than the total jobs lost in the Great Recession, 8.7 million. Of profound concern now is that the pace of job growth is slowing. In August, we added fewer jobs than in July, and far fewer than in June. Slowing job growth when there is a jobs deficit of more than 11 million is a disaster for the working families of this country. It is imperative that Congress act in at an unprecedented scale to provide the fiscal aid that will create and save jobs, in particular, aid to State and Local governments, and extending the unemployment insurance provisions in the CARES Act.

**Q.3.** The Great Recession also lasted longer for black and brown workers than white workers. Could you please explain how the 2007–2008 financial crisis and economic downturn had a disproportionate impact on black and brown households? How does the recovery from the Great Recession exacerbate the effects of the economic crisis related to the coronavirus pandemic for black and brown families?

**A.3.** It wasn't until 2019 that the median income of black households finally surpassed its pre-Great-Recession peak—12 years after the start of that recession. Black households were the last racial group to meet this benchmark, and black wealth has yet to recover. This is due to a wide variety of factors rooted in systemic racism, from occupational segregation by race to discrimination in mortgage lending to other disparities in opportunity rooted in white supremacy. And now the recovery has been cut short, with

black and brown workers experiencing much more job loss in the current recession than white workers, while having less wealth to fall back on. The current recession will exacerbate profound racial inequalities. Congress must act.

**Q.4.** We've seen how State and local governments, who keep our communities clean and safe and employ thousands of workers, are struggling financially under the weight of this pandemic, like in my home State of Ohio. Although the Federal Reserve is working on a facility to help lend money to some municipalities, this may not be enough. What are the economic consequences if we fail to provide more direct Federal aid to State and local governments?

**A.4.** Without additional Federal aid, State and local governments are currently forecast to be facing revenue shortfalls as large as $1 trillion in coming years. Further, due to balanced budget requirements, State and local governments are tightly constrained from taking on large amounts of debt to maintain spending in the face of this downward shock to their revenues. The result is intense pressure for large cutbacks in public spending by State and local governments in coming years. Such cutbacks would be devastating to the cause of restarting the economy, even if the virus has completely abated. We know how devastating these cutbacks would be because we have lived through the mistake of allowing them to drag on growth in the recent past. The lack of sufficient aid to State and local governments in the aftermath of the Great Recession led to State and local spending austerity that delayed the recovery from the Great Recession by over 4 years. As of mid-April, State and local governments had already lost more jobs than they did during the entire Great Recession. In this crisis, if Federal aid is passed that is sufficient to close the enormous revenue shortfalls the economic crisis will cause for State and local governments, it will save 5–6 million net jobs in the public and private sectors by the end of 2021. Without this aid, those jobs will be lost.

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## RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM HEIDI SHIERHOLZ

**Q.1.** *Federal Reserve's Interventions Impact on Workers*—Do you think the Federal Reserve's interventions will reduce unemployment? If so, what should the Fed do to promote employment? How should they ensure their interventions protect jobs for workers?

**A.1.** Yes, the Fed's actions will reduce unemployment relative to a scenario where they did nothing. Mass bankruptcies are bad for the labor market, and the interest rate structure appropriate for February 2020, with 3.5 percent unemployment, was obviously not appropriate for March and April of 2020 when properly measured unemployment quintupled. The most valuable thing the Fed can do is what they've already done: reassure fiscal policymakers that policy interest rates will remain low so long as the economy remains weak. Fiscal policymakers need to recognize this signal and provide much greater aid to households and State and local governments.

**Q.2.** Should the Federal Reserve prioritize investments in businesses that support strong unions that provide living wages?

**A.2.** Unions are deeply important for our economy and the workers in it. Unions provide workers livable wages, strong benefits, and safe working conditions. And unions don't just help union workers—they help all of us. When union density is high, nonunion workers benefit, because unions effectively set broader standards—including higher wages that nonunion employers must meet in order to attract and retain the workers they need. The combination of the direct effect of unions on union members and this "spillover" effect to nonunion workers means unions are crucial in raising wages for working people and reducing income inequality. However, prioritizing investments in businesses that support unions is not the Fed's job. Congress and the President must pass laws that make it possible for all willing workers to form unions and bargain collectively. The Fed does not have the administrative capacity—particularly in the throes of a horrific economic crisis—to make these decisions.

**Q.3.** Do you think the Fed's interventions will result in more or less corporate consolidation? Should antitrust concerns be a focus of the Justice Department and Congress?

**A.3.** The effects of the Fed's post-COVID interventions could either increase or decrease consolidation. The potential for the Fed's interventions to increase consolidation has gotten substantial attention, but it's important to note that given that large firms are arguably much more able to raise funds in distressed financial markets than small firms, the Fed's actions could well be leveling the playing field. Antitrust should be a concern of both the Justice Department and Congress.

**Q.4.** Some criticize the Federal Reserve's actions to provide a backstop for businesses that now have junk bond status. They argue that such interventions protect wealthy investors. Do you think the dramatic interventions by the Federal Reserve will contribute to greater income and wealth inequality?

**A.4.** I believe the Fed's actions will unambiguously reduce income inequality, if modestly. Almost nothing in the past 5 decades has been as destructive of equality in the U.S. economy as labor markets that remain weak for extended periods. The Fed's actions will modestly help the labor market recovery. The Fed's initial purchase of financial assets (Treasuries and corporate bonds, in particular) will boost their prices, which will increase reported wealth inequality (as these assets are concentrated—like all wealth—in portfolios of richer households). But if they unwind these purchases at any point in the future, this will reduce their prices and reduce inequality. Further, the largest effects of past Fed support of the financial system was on home prices. Given that home equity is the most democratically held form of wealth, this equalized wealth holdings between, for example, the median family and the top 1 percent.

**Q.5.** What public investments should policymakers consider to provide jobs to the 40 million Americans who have become unemployed and whose jobs may not return any time soon?

**A.5.** Policymakers should make major investments to address national priorities such as public health, the care economy, infrastructure, public education, and climate crisis mitigation.

These investments would both meet national needs and create millions of good jobs.

**Q.6.** Do you think the employee retention provisions in the Main Street Lending Program are adequate?

**A.6.** No, the conditions on the Main Street Lending Facilities are deeply inadequate. For example, companies do not even need to attest that they will make an effort to keep workers; there is simply a toothless statement that companies "should" make "commercially reasonable" efforts to maintain employment. Further, since there are no limits on the types of entities that could use these facilities, it is likely that highly aggressive and sophisticated entities such as large private equity firms will seek out opportunities to channel funding to reward capital owners instead of supporting workers and the response to the pandemic. Such uses of the facilities could effectively loot money from taxpayers. For example, a private equity fund could have a portfolio company borrow money from the Federal Reserve, transfer that money up to the private equity parent in the form of monitoring fees or other payments rather than using it to support employment, and then the private equity fund would not be responsible for repaying funds to taxpayers if the portfolio company went bankrupt.

**Q.7.** Do you think the Federal Reserve has structured its programs to support maximum employment?

**A.7.** Given inaction by the Congress and President, the Fed should make the Municipal Liquidity Facility (MLF) more attractive to State and local governments, reducing interest rates, extending terms, extending the borrowing period and opening it up to a wider range of Governments. In future recessions, the Fed could be given the necessary tools to more directly support maximum employment than these, but they do not currently have them.

**Q.8.** The CARES Act restricts Fed financing to "businesses that are created or organized in the United States or under the laws of the United States and that have significant operations in and a majority of its employees based in the United States."

Are you concerned that companies that have undergone a tax inversion or a U.S. subsidiary of a foreign company will receive assistance? If so, how should the Federal Reserve structure the loan to preserve jobs while requiring the corporation repay the taxpayers who financed the loan?

**A.8.** Generally, I'm not concerned that too many businesses will receive help from the Fed—I think the much bigger problem is insufficient aid being given across-the-board to households, Governments and businesses in the recovery. Any firm operating in the U.S. that employs U.S. workers strikes me as a good target for aid at a time like this, even if they are foreign-owned. If these firms have inverted purely for tax gains, the IRS should be the agency that assesses this and provides the appropriate remedies.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR JONES FROM HEIDI SHIERHOLZ**

**Q.1.** According to the Pew Research Center, 60 percent of Hispanic adults say that someone in their household has lost their job or experienced decreased pay due to the coronavirus outbreaks and about 44 percent of African Americans have reported the same.

The Federal Reserve has regularly reported, in healthy economic times, that almost 40 percent of individuals do not have the funds to cover a $400 emergency. The Pew Research Center reports that 53 percent of white adults have rainy day funds compared to 29 percent of Hispanics, and 27 percent of African Americans.

After the Great Recession, communities of color lost more than a $1 trillion of wealth. Will the coronavirus pandemic exacerbate the existing gap of wealth between African Americans and Hispanics with their white counterparts? What policy steps should Congress take to close the gap after the pandemic?

**A.1.** Yes, the coronavirus pandemic will exacerbate the existing wealth gap between black and Hispanic workers with their white peers, because evidence to date suggests that black and Hispanic workers face much more economic and health insecurity from COVID–19 than white workers. Black and Hispanic workers have experienced greater job losses during the pandemic, are less likely to have the ability to work from home, less likely to have paid sick days, and are more likely to be uninsured compared to their white peers. These disproportionate impacts of the coronavirus on black and Hispanic workers will only widen existing wealth gaps unless policymakers address long-standing underlying racial disparities in economic and health outcomes.

Steps policymakers should take to close the racial wealth gap after the pandemic include:

- Fiscal policy that prioritizes investments that create jobs in high-unemployment and high-poverty communities.
- Strengthen the rights of workers to organize, join unions, and collectively bargain, as directed in the PRO Act, passed by the House of Representatives in February 2020.
- Strengthen enforcement of antidiscrimination laws and policies through banning the use of forced arbitration agreements as a condition of employment, prohibiting employers from asking potential employees about pay history, and requiring employers to provide greater pay transparency.
- Update existing labor standards so that they continue to provide a robust floor for job quality, including increases to the minimum wage, as provided in the Raise the Wage Act of 2019, preventing further erosion of the Federal overtime salary threshold, and elimination of exclusions to basic labor standards that are historically rooted in racial exclusion and discrimination.

**Q.2.** The Paycheck Security Program would cover the wages and benefits of furloughed or laid off employees of affected businesses and nonprofits that have experienced a drop in revenues of at least 20 percent. Grants will cover salaries and wages up to $90,000 for each furloughed or laid off employee, plus benefits, as well as up

to an additional 20 percent of revenues to cover fixed operating costs such as rent, utilities, insurance policies, and maintenance.

Companies receiving these grants must commit to a number of restrictions including maintaining pay and benefits of rank-and-file workers and offering to bring back workers laid off since February 1st the opportunity to go back to participate in the program at prior level of compensation. Additionally, the bill would decrease the burdens on financial institutions that are overwhelmed by SBA loan programs.

Can you share your thoughts on the Paycheck Security Act? Do you believe this will provide business owners who missed out on the Paycheck Protection Program (PPP) security?

**A.2.** The Paycheck Security Act would avert mass layoffs and prevent irreversible business losses, it would prevent millions from losing their health insurance, and it would provide resources for firms to rehire furloughed workers and restore their health care benefits. We entered the current crisis with a weak social insurance system and public safety net, and workers and their families are paying the price. Given this preexisting weakness, fast and transformative responses to this economic crisis are crucial, and the Paycheck Security Act is a bold solution to provide needed relief during the extended lockdown (or partial lockdown) period of the crisis, and to put us in much better position to mount a rapid recovery once the public health all-clear is sounded.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

**LETTER SUBMITTED BY CUNA**

Credit Union National Association
CUNA

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99 M Street SE
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June 2, 2020

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of America's credit unions, I am writing regarding the Implementation of Title IV of the CARES Act. The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

We thank the Committee on Banking, Housing, and Urban Affairs for its leadership during these unique and challenging times. We note that many challenges to our members implementing CARES Act programs and changes to regulations would likely be less challenging if done so under normal circumstances with more time to consider and develop the programs and changes.

**Troubled Debt Restructuring**
The CARES Act provides temporary relief for depository institutions, including credit unions, from complying with certain requirements under the Financial Accounting Standards Board's troubled debt restructuring (TDR) standard. This important flexibility allows credit unions to modify troubled and other loans in relation to COVID-19 difficulties without needing to take additional steps necessary under the standard.

We greatly appreciate the relief provided by this provision in the CARES Act. Any and all compliance relief during this taxing time is extremely beneficial in allowing credit unions to continue to serve their members.

Under the Act, the TDR relief will expire on the earlier of December 31, 2020, or 60 days after the President terminates the COVID-19 national emergency. We appreciate and support the temporary nature of this relief. However, we believe in order to sufficiently aid America's thousands of credit unions as they work with their over 115 million members who may be experiencing challenges repaying loans during the pandemic, relief from TDR reporting for qualifying loan modifications should be in effect until December 31, 2021, at the earliest.

**Central Liquidity Facility**
The CARES Act made several important changes to the Central Liquidity Facility (CLF), including increasing the CLF's maximum legal borrowing authority and permitting corporate credit unions to act as agents for credit unions. These changes improve the operation and accessibility of the CLF to credit unions by expanding the amount of liquidity the National Credit Union Administration (NCUA) can provide to them.

However, these measures are set to sunset at the end of 2020. Given the unprecedented nature and the depth of this pandemic and the subsequent economic crisis, CUNA urges Congress to expand the CLF's borrowing authority from 16 to 25 times the paid in capital, extend the expanded borrowing authority until at least December 31, 2021, and make permanent the ability of corporate credit unions to act as agents for credit unions. Particularly since credit

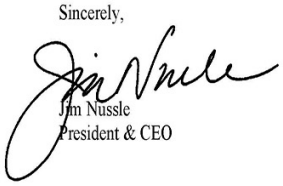
unions need to have access to liquidity when other parts of the economy freeze up, Congress should take steps to ensure the long-term viability of the CLF so it can help credit unions in future crises.

**Transaction Account Guarantee**

Section 4008 of the CARES Act provides the NCUA and Federal Deposit Insurance Corporation (FDIC) with authority to increase federal insurance noninterest-bearing transaction accounts. This program is referred to as transaction account guarantee (TAG) was originally authorized by Sections 1104 and 1105 of the Dodd-Frank Act. The Dodd-Frank Act requires a written determination by the Federal Reserve Board and FDIC that "a liquidity event exists that warrants use of the guarantee program," and written consent by the Treasury Secretary. The NCUA can only increase insurance in consultation with the FDIC. The current program has a deadline of December 31, 2020. Although the program hasn't been used, we request that the expiration be extended for a year.

On behalf of America's credit unions and their 115 million members, thank you for holding this important hearing.

Sincerely,



Jim Nussle
President & CEO

## LETTER SUBMITTED BY NUFCA

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June 1, 2020

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, DC 20510

**Re: Hearing on the Implementation of Title IV of the CARES Act**

Dear Chairman Crapo and Ranking Member Brown:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing on the implementation of Title IV of the CARES Act. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products.

We appreciate that credit unions were included in the CARES Act and thank you for holding today's hearing to evaluate the implementation of Title IV this legislation. As you examine Title IV of the CARES Act, we would like to share our thoughts on certain sections that impact credit unions:

Section 4008
NAFCU would like to highlight the lack of parity between credit unions and community banks in Section 4008 of the CARES Act. This section appears to allow the Federal Deposit Insurance Corporation (FDIC) to establish an unlimited maximum guarantee, whereas the "equivalent" provision for the National Credit Union Administration (NCUA) appears to only apply to noninterest bearing transaction accounts. We ask that the Committee consider providing the NCUA with the same powers as the FDIC, extending their ability to establish a maximum guarantee to all shares or deposits held in a federally-insured credit union.

Section 4012
Another issue with parity between community banks and credit unions comes in section 4012. This section provides banking regulators with the authority to temporarily lower the Community Bank Leverage Ratio (CBLR) from 9 percent to 8 percent. NAFCU asks that you consider capital relief for credit unions in the next relief package that is on par with those provided to community banks, so that credit unions may loan more to their members who need it.

Section 4013
NAFCU appreciates the provisions in this section giving the NCUA broad authority to suspend Generally Accepted Accounting Principles requirements with respect to loan modifications related

to COVID-19 that would otherwise be categorized as Troubled Debt Restructurings (TDR's). Despite the flexibility that was granted, there are still operational challenges with the treatment of loan modifications and TDR's and we have urged the NCUA to act to permit credit unions to reinterpret its regulations to permit capitalization of interest, in accordance with GAAP and the processes of the banking agencies and Fannie Mae and Freddie Mac, as credit unions work to help borrowers in need. Currently, in order to make a TDR modification work for the member, the credit union must pursue one of the following options: (1) collect interest current at the time of modification, which causes additional hardship for the member, especially as many Americans have now lost their jobs; (2) forgive the interest, which harms the credit union, making it more difficult to loan to other members and creates potential tax ramifications for the members; (3) defer the interest until the end of the loan term, which creates a balloon payment for the member and could cause additional hardship; or (4) adjust the amortization on the loan and bifurcate it to create a modified rate component and a zero-interest component, which is confusing for the member and poses operational challenges for the credit union as many systems are not designed to easily incorporate such an adjustment.

Section 4014

Credit unions remain well-capitalized as an industry and stand ready to help in the economic recovery. However, pending new capital requirements from regulators could stymie these efforts. Even though the Financial Accounting Standards Board (FASB) has delayed its new Current Expected Credit Loss (CECL) standard for credit unions until the first quarter of 2023, credit unions will have to start bringing their portfolios in line in 2021 and 2022. The temporary relief for 2020 provided in Section 4014 is a good first step. Still, CECL will remain a burden on credit unions as the economy seeks to recover. This could cause constraints on lending and delay our nation's economic recovery. NAFCU believes that credit unions, as not-for-profit cooperative institutions, should not be subject to the CECL standard. If credit unions are not exempted, further delaying implementation of this standard could help provide additional clarity and relief for credit unions. We would note that NCUA Chairman Hood called for a credit union exemption to the CECL Standard in an April 30, 2020 letter to FASB, stating that "…the compliance costs associated with implementing CECL overwhelmingly exceed the benefits." We hope you will continue to examine legislative measures to provide relief from CECL in the next coronavirus relief package.

Section 4016

We support, and ask that you make permanent, the changes to the Central Liquidity Facility (CLF) in section 4016. We would note that National Credit Union Administration (NCUA) Chairman Rodney Hood and Board Member Todd Harper have both called on Congress to make these changes permanent. The CLF is an important liquidity tool for credit unions, and the recovery ahead will likely extend beyond the end of 2020 when the changes are set to expire. NAFCU believes strong liquidity is vital to ensuring loans to struggling families and small businesses continue to flow within the credit union system.

Sections 4022 & 4023

We would also like to re-iterate credit unions' concerns with section 4022 and 4023, which provide borrowers with forbearance options for single-family and multifamily loans sold to the government-sponsored enterprises (GSEs), respectively. Credit unions stand ready to help their members remain in their homes but may also be facing difficulties handling the large volume of forbearance requests. Credit unions are experiencing many members submitting requests for forbearance as countless individuals are furloughed or laid-off from their jobs as a result of the COVID-19 pandemic and facing financial hardship. However, credit union mortgage servicers are contractually obligated to continue to make payments to investors on the interest, with respect to Freddie Mac mortgages, and interest and principal, with respect to Fannie Mae mortgages, on mortgage-backed securities (MBS), based on a calculation of the unpaid principal balance of the loan after the last payment was received from the borrower. The CARES Act did not address these issues. NAFCU has asked the Federal Housing Finance Agency (FHFA) to direct the GSEs to be as transparent as possible with respect to expectations for servicers during these unprecedented times and offer assistance programs for servicers encountering difficulties making the required payments to the GSEs on mortgages and MBS. We ask that you echo these requests to the FHFA, as well as consider legislative action to ensure that this health crisis does not become another financial crisis. Congress should enact measures to address this concern, including directing insurance companies to keep hazard insurance policies in place during a period of forbearance, directing the National Flood Insurance Program (NFIP) to keep flood insurance in place during a forbearance, and addressing the issue of property tax payments during a period of forbearance, such as the Federal government stepping in to make required payments to local governments during the forbearance period instead of putting the burden on the financial institution.

As your committee evaluates the implementation of Title IV of the CARES Act, we strongly urge you to consider the concerns of the nation's credit unions and the 120 million Americans that they serve that we have outlined in this letter. During times of economic crisis, credit unions always focus on their members and doing all that they can to help. We thank you for the opportunity to share our members concerns in advance of this hearing.

Should you have any questions or require any additional information, please contact me or Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at 703-842-2836.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Senate Banking Committee