

Statement of Damon Jones

Testimony prepared for the US House of Representatives Committee on the Budget

Hearing on “Health and Wealth Inequality in America: How COVID-19 Makes Clear the Need for Change”

June 23, 2020

Introductions

Thank you Chairman Yarmuth and Ranking Member Womack for inviting me to speak today. I am Damon Jones. I am an economist and an associate professor at the University of Chicago, Harris School of Public Policy. My research and teaching focus on inequality, tax policy, and household financial well-being.

My comments today will focus on four aspects of inequality in the U.S. and how they interact with the current COVID-19 pandemic:

1. the long-term declines in worker power,
2. the coupling of health insurance coverage and employment status,
3. wealth inequality and the strengths and weaknesses of our existing social safety net, and, finally,
4. economic inequality along racial lines.

Declining Worker Power

According to several indicators, the bargaining power of workers, in particular low-wage workers, has been on the decline over the last several decades. A commonly-cited metric for worker bargaining power is the share of workers who are represented by a union. At its peak in the early 1950s, the share U.S. workers represented by a union was estimated to be above one-third, and possibly as high as 40 percent. Today, unionization rates are closer to 10 percent.¹ Other measures consistent with a decline in worker power include a declining share of profits going to labor relative to capital, as well as the rise of non-compete contracts.² Recent studies are also now identifying strong evidence of employer power in setting wages, known as “monopsony power,” or the ability of firms to set wages below what they would be in a highly competitive labor market.³

¹ “Unions and Inequality Over the Twentieth Century: New Evidence from Survey Data,” (2018), by Henry Farber, Daniel Herbst, Ilyana Kuziemko, and Suresh Naidu, NBER Working Paper 24587

² See “The Declining Worker Power Hypothesis: An Explanation for the Recent Evolution of the American Economy” (2020), by Anna Stansbury and Lawrence H. Summers, NBER Working Paper 27193, for one summary of these trends.

³ “Monopsony in Online Labor Markets,” (2018), by Arindrajit Dube, Jeff Jacobos, Suresh Naidu, and Siddharth Suri, NBER Working Paper 24416

Collective bargaining can help workers secure higher pay and better working conditions, and has historically been responsible for securing what are now considered common-sense workplace health and safety measures. On the other hand, during the last several decades, when unionization has waned and worker power has eroded, median wages have remained stagnant, even despite the increasing productivity of firms.⁴ It is in this setting where we find workers in low-wage jobs, at the onset of the COVID-19 pandemic.

With worker bargaining power at the lowest it has been in decades, how have frontline workers in these fared during this health crisis? As 2.4 million in the U.S. have contracted the novel coronavirus and a quarter of frontline workers have reported feeling anxiety about infection⁵, those workers deemed “essential” have nevertheless continued to clock in—at times, putting their well-being and the well-being of their families at risk. Rising bills and expenses appear to be a key factor driving this decision.⁶ What’s more, many of these workers have not received significant increases in hazard pay in return for their work: essential workers report on average an increase of \$1 in hourly compensation, and at least half report no change in wages.⁷ With more robust bargaining power, these workers would likely be able to demand safer working conditions, better benefits, and higher compensation in return for their essential work. Unionized workers, on the other hand, report a higher likelihood of always using personal protective equipment (PPE) at work, access to paid sick leave in the event of an infection, disinfecting of the workplace, and are more likely to have been tested for COVID-19.⁸ These protections provide direct benefit frontlines workers, and they may also make our nation collectively safer.

As calls for reopening the economy increase, the discussion weighing the pros and cons is likely to be driven by those with interest in lost business revenue. But this must be balanced with the consideration of the workers who will be put most at serious risk and the potential spillover effects on broader society via increased spread of COVID-19. Organized business interests are in a much better position to lobby for their preferred measures, relative to the disaggregated frontline workers who share a common interest in exercising prudence in bringing back normal economic activity, but may lack a common means to communicate that interest. Elevating the voices of these workers is of the utmost importance, both as it pertains to safe working conditions during the pandemic and also given the role the long-term trend in declining worker power in contributing to stagnant wages.

⁴ Stansbury and Summers (2020)

⁵ “Understanding the COVID-19 Workplace: Evidence from a Survey of Essential Workers,” (2020), by Alexander Hertel-Fernandez, Suresh Naidu, Adam Reich, and Patrick Youngblood. Roosevelt Institute Report

⁶ Hertel-Fernandez et al. (2020)

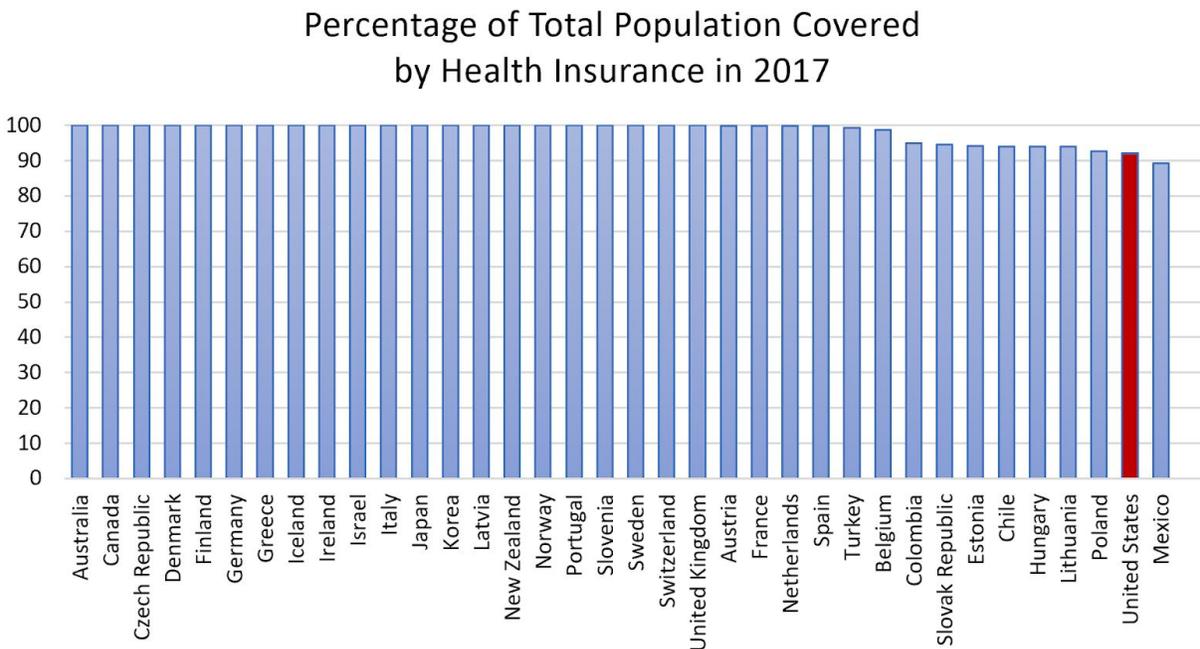
⁷ Hertel-Fernandez et al. (2020)

⁸ Hertel-Fernandez et al. (2020)

Incomplete Insurance Coverage

Another important dimension of inequality in the U.S. involves access to health care and health insurance coverage. There has been a longstanding debate surrounding these issues, including in the most recent presidential campaign cycle, but I will only offer a few succinct observations related to the current COVID-19 pandemic. First, our approach to health insurance in the U.S. places us in the stark minority among our counterpart OECD countries. Prior to the pandemic, the U.S. ranked second to last in insurance coverage among OECD countries (Figure 1). Given the levels of coverage that are achieved in the majority of our peer countries, we have to view this outcome as a policy choice, as opposed to some fundamental structural limit on feasible coverage rates. There are a variety of models and paths toward universal health insurance coverage. Our approach in the U.S., in which a majority of non-elderly families receive health insurance coverage through an employer, has proven inadequate at achieving this goal.

Figure 1: Health Insurance Coverage Among OECD Countries



Source: Organization for Economic Co-operation and Development (OECD)

The flaws of our approach to health insurance and health care have been laid bare during this current crisis in which we have experienced an unprecedented rise in the number of unemployed workers. It is estimated that among the nearly 78 million people living in households where a job was lost, just under 27 million are likely to become uninsured due to separation from an employer and loss of employer sponsored insurance (ESI).⁹ Among these

⁹ "Eligibility for ACA Health Coverage Following Job Loss," (2020), by Rachel Garfield, Gary Claxton Anthony Damico, and Larry Levitt. Kaiser Family Foundation

newly uninsured, approximately one in five are estimated to be ineligible for publicly subsidized insurance. And even among those who are eligible, additional barriers to coverage remain. First, for families considering Medicaid, the eligibility for this option varies significantly from state to state, depending on whether or not the state has adopted Medicaid expansions of the Affordable Care Act (ACA). Alternatively, for those that might wish to turn to insurance exchanges for coverage, they must be aware of their options and must be able to navigate the registration process at a time when funding for outreach and enrollment assistance has been severely cut.¹⁰ Finally, there is the option to extend prior health insurance through the Consolidated Omnibus Budget Reconciliation Act (COBRA), but this is typically an expensive proposition.

If we were to instead have a system of universal health care in place, where insurance were not linked to employment status, these families would have access to continuous coverage and health care, which is particularly valuable during a public health crisis. Furthermore, for those who have contracted COVID-19, there is a potential for longer-term chronic complications, in which case broad health insurance coverage will play a key role in the management and or prevention of chronic illness or irreversible adverse health outcomes.

Wealth Inequality and Financial Vulnerability

Wealth inequality in the U.S. is high, and has increased over time. Although there are vigorous debates about exactly how much wealth is concentrated at the top, economists estimate that the top 1 percent of households own anywhere between 30 and 39 percent of total U.S. wealth. By contrast, the bottom 90 percent of households hold at most 34 percent of U.S. wealth.¹¹ This has implications for how inequality manifests across different groups and regions, across different generations, and how equally or unequally power in society is distributed. One component of wealth in particular, liquid assets, are particularly important for understanding how families will fare during a crisis such as the one we currently face. Liquid assets refer to cash on hand, in your wallet, or checking and savings accounts, and/or assets that can be easily converted into cash.

Many households have very little cash on hand for an emergency. Surveys suggest that about 42 percent of households do not have money set aside that could be used for an unexpected emergency.¹² In 2016, more than half of U.S. households had less than one month of liquid assets available to access in an emergency.¹³ This means that when these households face cuts in their take-home pay or worse, when they become unemployed, they will have to make

¹⁰ “Trump Administration Slashes Funds for ACA Outreach,” July, 10, 2018, by Stephanie Armour, *The Wall Street Journal*

¹¹ See “Top Wealth in America: New Estimates and Implications for Taxing the Rich,” (2020), by Matthew Smith, Owen Zidar, and Eric Zwick, for an overview and comparison of many recent estimates of top wealth shares, Working Paper.

¹² Current Population Survey (CPS) June 2015 and June 2017 unbanked/underbanked supplement.

¹³ Survey of Consumer Finances (SCF), 2016.

painful reductions in spending on necessary household expenditures such as groceries, utilities, and rent.

In a recent study, we found this vulnerability to be highly sensitive to the amount of liquid assets present in the household. When faced with a 10 percent drop in pay, households with the highest levels of liquid assets are likely to cut their spending by about 1 percent. In contrast, households with the lowest levels of liquid assets are likely to cut their spending four times as much.¹⁴ Likewise, when a family member becomes unemployed, households with the highest levels of liquid assets reduce spending by about 24 cents for each dollar in lost income, while households with lowest levels of liquid assets reduce spending nearly twice as much.¹⁵ Overall, this prior evidence suggests that during the current pandemic, households with the lowest levels of liquid assets will be the hardest hit by lower pay and unemployment during the pandemic. So while it may seem that the current crisis calls on all of us to make sacrifices, not all households have to tighten their belts equally.

In the absence of personal savings to help weather the storm, many may turn to public support to maintain the economic security they need to take care of their families. In the U.S., our social safety net consists of various policies designed to provide this type of relief. During the current economic downturn, we have provided cash relief to families through two primary channels: 1) economic impact payments (also known as “stimulus payments”) through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and 2) generous extensions of the unemployment insurance (UI) program—generous in terms of how long UI may be claimed, who may be eligible, and how much workers receive each week. Indeed, these measures are projected to provide a considerable amount of relief. One study, relying on simulations, estimates a projected poverty rate of 12.7 percent during the current pandemic, that could have been as high as 16.3 percent in the absence of the aforementioned economic relief.¹⁶ Another study, using nearly real-time data from the Current Population Survey (CPS), estimates that because of our economic relief payments, the number of households below the poverty line actually fell during the first months of the pandemic, even in spite of widespread job loss.¹⁷

Despite these promising outcomes, we may still have reason to believe that some families are still in dire need and others may be missed by our primary means of providing relief. First, measures of food insecurity rose at the beginning of the pandemic, before decreasing slightly over time.¹⁸ In addition, some families may face delays in receiving either the CARES Act

¹⁴ “Wealth, Race, and Consumption Smoothing of Typical Income Shocks,” (2020), by Peter Ganong, Damon Jones, Pascal Noel, Diana Farrell, Fiona Greig, and Chris Wheat, Working Paper.

¹⁵ “Consumer Spending during Unemployment: Positive and Normative Implications,” (2019), by Peter Ganong and Pascal Noel, *American Economic Review*, Vol. 109, No. 7.

¹⁶ “The CARES Act and Poverty in the COVID-19 Crisis,” (2020), by Zachary Parolin, Megan A. Curran, and Christopher Wimer. Columbia University Center on Poverty and Social Policy Brief.

¹⁷ “Income and Poverty in the COVID-19 Pandemic,” (2020), by Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, Working Paper.

¹⁸ “Vast Federal Aid has Capped Rise in Poverty, Studies Find,” June 21, 2020, by Jason DeParle, *The New York Times*.

economic impact payments—in some extreme cases, as long as a year.¹⁹ Similarly, some households may face a lag in determining whether they qualify for unemployment insurance.²⁰ For households with low levels of liquid assets, even a short delay can create significant challenges. In addition, the CARES Act payments were only a one-time measure and the extensions in unemployment insurance are set to expire at the end of the July.

In general, some of our most direct income support programs, such as the Earned Income Tax Credit and Child Tax Credits, are delivered annually through the income tax filing system, while families who face short-term needs for cash relief require more responsive and steady income support.

Finally, we must point out that there are a number of families that are unlikely to benefit from this relief. There are some adult dependents of other tax filers who are not eligible for CARES payments. There are also people experiencing homelessness who are very unlikely to access these benefits. There are individuals who are not familiar with how to navigate the complex systems needed to access these resources, and there have been moments during the pandemic when the path to doing so was unclear or confusing. And importantly, a large class of families with members who are undocumented or who do not have a social security number are left out. These members of our community are in as just as much need as any.

Racial Inequality

A final type of inequality present in the U.S. at the onset of the pandemic, which is now likely to be exacerbated, is that between racial groups. In all three of the above cases, the patterns of inequality discussed also exist across racial and ethnic lines. According to one estimate, Black workers comprise 17 percent of frontline workers but only 12 percent of the total workforce, and Latinx workers are overrepresented in a number of essential industries, including grocery and retail, trucking, warehouse, and postal services, and building cleaning services.²¹ This racial and ethnic clustering within specific sectors and industries has led to divergent patterns of job loss during the pandemic. Initially, an overrepresentation in essential jobs meant that the unemployment gap between White and Black workers became smaller at the onset of the pandemic. The ratio of Black to White unemployment is typically around 2, but was closer to 1.25 in April. However, as time has passed, the unemployment gap has begun to return to prior levels. The White unemployment rate declined during the month of May, while remaining steady for Black workers. On the other hand, Latinx workers now find themselves with the highest rates of employment, in part due to their concentration in restaurant and hospitality industries—industries that have experienced dramatic job loss.

¹⁹ “IRS tells parents still waiting for their \$500 stimulus child benefit it won’t arrive until next year,” May 1, 2020, by Michelle Singletary,, *The Washington Post*.

²⁰ See article by Jason Deparle (2020) above.

²¹ “A Basic Demographic Profile of Workers in Frontline Industries,” April 7, 2020, by Hye Jin Rho, Hayley Brown, and Shawn Fermstad. Center for Economic and Policy Research.

With regards to health insurance coverage, the share of nonelderly people uninsured was higher for Black (11 percent) and Latinx (19 percent) families, relative to White ones (8 percent). In the case of Latinx families, undocumented status is likely to play a major role. Notably, the share of uninsured among Native people is even higher, at 22 percent.²² Because insurance is generally tied to employment status, the employment trends discussed above are likely to make it harder for these households to maintain continuity in coverage, if retaining coverage at all, during the pandemic.

Finally, the U.S. faces dramatic racial wealth gaps. The typical White household has \$171,000 in net wealth, while the level among Black households is only a tenth of that amount, at \$17,150, and Latinx households fare slightly better with \$20,720 in net wealth.²³ This translates directly into higher financial vulnerability. In a recent study, we found that when a worker's paycheck is 10 percent lower than expected, a White worker is likely to reduce household spending by 2 percent, while the impact on Black and Latinx households was 50 percent and 20 percent larger, respectively.²⁴ Figure 2 shows how these same dynamics unfold during an unemployment spell. In Panel A, we see that in this sample of households with bank accounts, income drops at about the same rate at the onset of unemployment (i.e. time "0" on the x-axis). However, in Panel B, we see that spending on necessary goods falls by a greater amount for Black and Latinx (Hispanic) households, as compared to White households. Although these data are taken from years preceding the pandemic, it is likely that similar disparities will emerge during the current crisis.

As mentioned above, there are various policy measures in place to provide relief for households with few assets. However, there are likely to be racial disparities in access to this support. For example, there are approximately 12 million households for whom CARES payments are not automatically sent. These are households that did not file a tax return in either 2018 or 2019, generally because their income was so low that a tax return was not required. These households must file additional paperwork by October 15th in order to receive a payment. It is estimated that Black and Latinx households are disproportionately represented among this group.²⁵ Moreover, among the households that have received a payment from the IRS, payment processing is much slower for those who do not use direct deposit. In this respect, we might again worry that Black and Latinx households are more likely to experience a delay, with 17 and 14 percent not having a bank account, respectively, compared to 3 and 2.5 percent among White and Asian households, respectively.²⁶ More generally, while we have shown above that economic impact payments and unemployment insurance extensions have caused poverty

²² "Uninsured Rates for the Nonelderly by Race/Ethnicity," (2018), Kaiser Family Foundation.

²³ Survey of Consumer Finance, 2016. Separate data for Asian and Native households is not available in the public use data.

²⁴ "Wealth, Race, and Consumption Smoothing of Typical Income Shocks," (2020), by Peter Ganong, Damon Jones, Pascal Noel, Diana Farrell, Fiona Greig, and Chris Wheat, Working Paper.

²⁵ "Aggressive State Outreach Can Help Reach the 12 Million Non-Filers Eligible for Stimulus Payments," June 16, 2020, by Chuck Marr, Kris Cox, Kathleen Bryant, Stacy Dean, Roxy Caines, and Arloc Sherman. Center on Budget and Policy Priorities.

²⁶ FDIC National Survey of Unbanked and Underbanked Households, 2017.

rates to be lower than they would have been otherwise, poverty rates among Black and Latinx households still hover near 20 percent, as compared to a much lower rate of 8 percent among White households.²⁷

Policy Solutions

Given the above discussion, I recommend the committee consider the following policy options for addressing inequality both during the pandemic and beyond.

1. **Support Collective Bargaining:** Empower workers by protecting their right to engage in collective bargaining, including potential bargaining options at the levels higher than firm (e.g. sectoral), and also by strengthening and enforcing existing U.S. labor standards. In particular, during the pandemic, convene bodies with representation from both workers and employers to address ongoing concerns of worker health and safety.²⁸
2. **Broaden Insurance Coverage:** In the short run, this committee may consider expansions of Medicaid eligibility for those who have experienced job loss. In the longer run, implement some version of universal health care provision and health insurance coverage, doing away with the tight linkage between health insurance coverage and employment status.
3. **Extend Cash Relief:** Continue periodic delivery of cash relief to U.S. households via direct payment through the IRS and by renewing extensions of the unemployment insurance program. Tie continued extension of the unemployment insurance program to macroeconomic indicators, as opposed to a set date, to avoid further uncertainty. Provide resources to state and local governments to better reach individuals not covered by either of the aforementioned forms of relief, and extend relief to undocumented families.
4. **Directly Address Racial Inequality:** While all of these factors are exacerbated by existing racial inequalities, alleviating longstanding racial disparities in economic outcomes, such as the racial wealth gap, will require a more fundamental shift in combating structural racism. A promising first step in that direction would include measures such as moving forward with H.R. 40 and establishing a committee to explore reparations for African-Americans. These policies are central in moving toward what William Darity Jr. and A. Kirsten Mullen describe as acknowledgement, redress, and closure with respect to historic racial injustice.²⁹

²⁷ See article by Jason Deparle (2020) above.

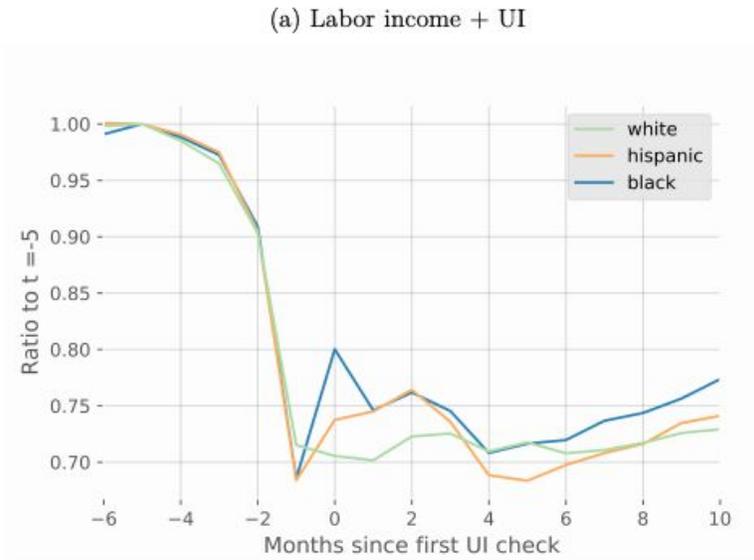
²⁸ For more details on such an approach, see “Worker Voice in the Time of COVID-19,” April 24, 2020, by Ariela Weinberger. The Roosevelt Institute.

²⁹ “Resurrecting the Promise of 40 Acres: The Imperative of Reparations for Black Americans,” (2020), by William Darity Jr. and A. Kirsten Mullen. The Roosevelt Institute.

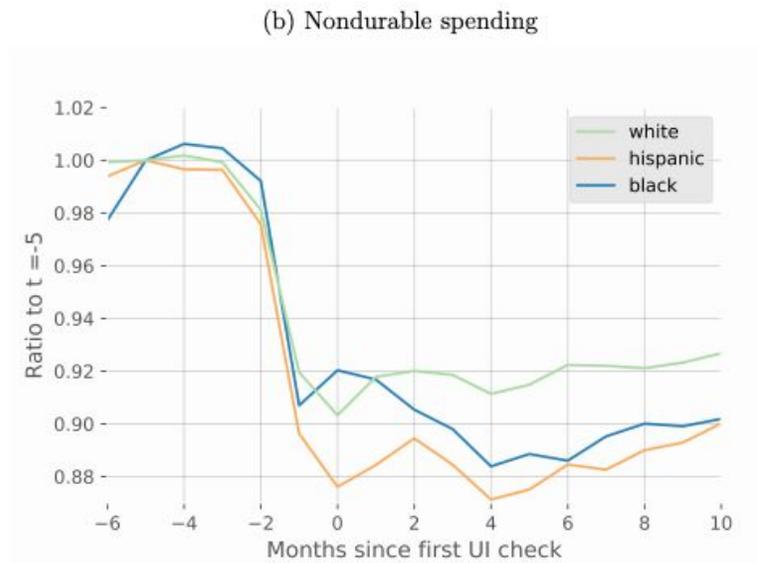
Thank you for the opportunity to speak with you today and I look forward to your questions.

Figure 2: Net Income and Nondurable Spending During Unemployment, by Race

Panel A: Net Income (income plus unemployment insurance)



Panel B: Nondurable Spending



Source: These figures are reproduced from Ganong et al. (2020), "Wealth, Race, and Consumption Smoothing of Typical Income Shocks"