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Thankyou Chairman Cardin, Ranking Member Paul, and other members of the committee for the opportunity to testify today. My name is Joel Griffith. I am a Research Fellow in Financial Regulations at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

This testimony will provide an overview of the economic calamity stemming from the COVID-19 shutdowns, the varied strength of the economic recovery from state to state, small business conditions, and the Paycheck Protection Program (PPP). This legislation provides for billions more of federal loans and grants despite the fact that billions of previously approved aid remains available. Some of these funds will flow to a program—the State Small Business Credit Initiative—with a history of problems. This federal aid crowds out private sector investment and ignores the fact that small businesses by and large do not report a drying up of credit. Re-opening the economy is the best relief for small businesses, as evidenced by the divergent economic results from state to state.

The data certainly bear out the economic decline stemmed from government-mandated closures and people responding to what they heard from some public health officials.

For the first time in our nation's history, governments intentionally suppressed the supply of goods and services. Likewise, restrictions on consumer activity artificially suppressed demand. An historic plunge in the production of goods, provision of services, and private investment resulted in the second quarter of 2020.[1]

The robust recovery of the third quarter and the much slower growth in the fourth quarter closed more than two-thirds of the sharp

[1] The nation's economy in the second quarter of 2020 shrank at a 31.4% annualized rate. Personal consumption dropped at a 33.2% annualized rate. Consumption of personal services dropped 41.8% annualized. Table 1.1.1, Bureau of Economic Analysis,https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey (accessed February 24, 2021). By the middle of 2020, the economy had contracted by 10.2% from its peak. Federal Reserve Bank of St. Louis, Series GDP, https://fred.stlouisfed.org/series/GDP (accessed February 24, 2021).

economic contraction. But much damage remains, with 9.9 million fewer individuals employed [2] and hundreds of thousands of businesses closed forever, including more than 100,000 restaurants.[3]

It's not for want of government spending that the economy still has not fully recovered. The federal government borrowed, printed, and spent trillions of dollars in an effort to cushion the economic downturn. Total federal spending of $6.551 trillion in fiscal year 2020 exceeded the prior year by $2.1 trillion,[4] an enormous increase of more than $24,000 per family of four.[5]

Rather, government-mandated closures and public perception of the crisis continue to deter investment and suppress economic activity. The skyrocketing federal debt and rapidly expanding central bank balance sheet creates the additional risk of a monetary crisis.

The Paycheck Protection Program (PPP) has been Inefficient, Untargeted, and Ineffective. In the weeks immediately following the onset of the pandemic, some federal government aid to businesses and employees potentially impacted by shutdown orders and precautionary measures was justifiable.

The small-business loan program has been ineffective at boosting employment. Three initial assessments of PPP found that the program cost between $109,000 and $380,000 per job saved, job which paid on average $45,000 prior to the restrictions instituted by governors and mayors.[6]

On the other hand, the economic resurgence in Q3 of 2020 even as PPP payments declined underscores how reopening can repair economic damage.

Unemployment rates and business conditions vary wildly across the nation dependent largely on the restrictions some governors and mayors continue to impose on society. State and local policymakers oversee decisions that affect businesses' abilities to operate, and they should assume the potential costs of new and ongoing business, school, and other closures they impose. States with the most restrictive economic policies are those that are suffering the largest business and employment losses.

Federal taxpayers should not continue to subsidize state and local decisions to shutter businesses and ruin livelihoods. Renewing the PPP program moves the costs of overly restrictive shutdowns to federal taxpayers and allows governors additional latitude to keep society shuttered with one-size-fits-all policies. Targeted, temporary, and local economic restrictions may be necessary, but those decisions, and the costs that they incur, should be weighed by the responsible policymakers.[7] PPP incentivizes state and local policymakers

[2] Federal Reserve Bank of St. Louis, Series PAYEMS, https://fred.stlouisfed.org/series/PAYEMS (accessed February 24, 2021).
[3] "Restaurant Industry in Free Fall; 10,000 Close in Three Months," National Restaurant Association, December 7, 2020, https://restaurant.org/news/pressroom/press-releases/restaurant-industry-in-free-fall-10000-close-in (accessed February 24, 2021).
[4] Congressional Budget Office, "Historical Budget Data," February 11, 2021, https://www.cbo.gov/system/files/2021-02/51134-2021-02-11-historicalbudgetdata.xlsx (accessed February 24, 2021).
[5] State and local governments increased spending by 15.4% from 2015-2020 and in the depths of the recession in Q2 of 2020 actually spent 1.2% more than the prior year. Federal Reserve Bank of St. Louis, Series SLEXPND, https://fred.stlouisfed.org/series/SLEXPND (accessed February 23, 2021).
[6] Raj Chetty et al., "The Economic Impacts of COVID-19: Evidence From a New Public Database Built Using Private Sector Data," National Bureau of Economic Research Working Paper No. 27431, November 2020, https://www.nber.org/system/files/working_papers/w27431/w27431.pdf (accessed December 3, 2020); João Granja et al., "Did the Paycheck Protection Program Hit the Target?" Becker Friedman Institute for Economics at UChicago, November 2020, https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_202052_Revised.pdf (accessed December 3, 2020); David Autor et al., "An Evaluation of the Paycheck Protection Program Using Administrative Payroll Microdata," MIT Working Paper, July 2020, https://economics.mit.edu/files/20094 (accessed December 3, 2020).
[7] Ditch et al., "Bipartisan Senate COVID-19 Package Should do More to combat COVID-19, Remove Wasteful Spending," The Heritage Foundation, December 14, 2020, https://www.heritage.org/budget-and-spending/report/bipartisan-senate-covid-19-package-should-do-more-combat-covid-19-remove (accessed March 15, 2021).

to continue destructive shutdowns and allows them to shirk responsibility.

PPP Continues to Flow in Other Troubling Ways. PPP was intended to assist businesses impacted by the pandemic. Often, it benefits well-funded and well-connected non-profits.

For instance, PPP funneled federal aid to Oprah-connected charities.[8] More than $80 million in PPP funds flowed to dozens of Planned Parenthood affiliates in 2020.[9] In New York City, millions in government loans—some of which may be forgivable-- flowed to entities such as the Philharmonic-Symphony of New York, The Vivian Beaumont Theatre, and School of American Ballet.[10]

Left unsaid is the fact that quarterly charitable giving actually rose by 2% in 2020 compared with the year prior.[11] Private individuals and businesses are generously contributing to the no-profits aligned with their objectives and personal beliefs. Some on are attempting to waive affiliate limitations for PPP for non-profits. This really is an attempt to use the crisis as a mechanism for transferring hundreds of millions of dollars to politically favored entities.

Extensive PPP Fraud Continues to Stretch Law Enforcement. A few noteworthy investigations include a Brooklyn individual accused of obtaining a $1.9 million PPP loan by claiming to employ 50 people—and then using the proceeds to purchase multiple luxury vehicles.[12] The Department of Justice is investigating an alleged fraud ring in San Fernando Valley of using $18 million in PPP proceeds to purchase "gold coins, diamonds, jewelry, luxury watches, fine imported furnishings, designer handbags and clothing, cryptocurrency, and securities."[13] Six individuals in Georgia and South Carolina are charged with working together to fraudulently obtaining $1.5 million in PPP loans.[14]

Congressionally Approved PPP Remains Unused. Congress has already approved more than $1 trillion in aid intended for smaller businesses, including more than $800 billion through the Paycheck Protection Program (PPP).

Much of this aid is still available. Of the additional $284 billion provided for PPP in the December stimulus package to be disbursed through March, only 36% had been obligated as of February 7.[15] Likewise, the December package provided $12 billion to Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to lend.

[8] Adam Andrzejewski, "Oprah Connected Charities Took Almost 300k in Federal Paycheck Protection Program," Forbes, March 12, 2021, https://www.forbes.com/sites/adamandrzejewski/2021/03/12/oprah-connected-charities-took-almost-300k-in-federal-paycheck-protection-program-ppp-funding/amp/ (accessed March 15, 2021).

[9] Planned Parenthood, "Annual Report 2019–2020," https://www.plannedparenthood.org/uploads/filer_public/67/30/67305ea1-8da2-4cee-9191-19228c1d6f70/210219-annual-report-2019-2020-web-final.pdf (accessed February 19, 2021).

[10] Open the Books, SBA Paycheck Protection Program Loans Over $1M, https://www.openthebooks.com/maps/?Map=90022&MapType=Pin (accessed March 15, 2021).

[11] https://institute.blackbaud.com/the-blackbaud-institute-index/#:~:text=5.3%25-,In%202020%2C%20overall%20charitable%20giving%20in%20the%20United%20States%20increased,Charitable%20Giving%20Report%20for%20more.

[12] Brooklyn Man Arrested for $1.9 Million Paycheck Protection Program Fraud, United States Department of Justice, December 21, 2020 https://www.justice.gov/usao-edny/pr/brooklyn-man-arrested-19-million-paycheck-protection-program-fraud (accessed March 15, 2021).

[13] 3 Additional Members of Alleged Fraud Ring Based in San Fernando Valley Arrested on Charges of Exploiting COVID-Relief Programs, United States Department of Justice, March 12, 2021, https://www.justice.gov/usao-cdca/pr/3-additional-members-alleged-fraud-ring-based-san-fernando-valley-arrested-charges (accessed March 15, 2021).

[14] Six Charged in Connection with a $3 Million Paycheck Protection Program Fraud Scheme, United States Department of Justice, January 28, 2021, https://www.justice.gov/opa/pr/six-charged-connection-3-million-paycheck-protection-program-fraud-scheme (accessed March 15, 2021).

[15] U.S. Small Business Administration, "Paycheck Protection Program (PPP) Report: Approvals through 2/15/2021," https://www.sba.gov/sites/default/files/2021-02/PPP_Report_Public_210215-508.pdf (accessed February 24, 2021).

The American Rescue Plan Act provided $15 billion more for the Targeted Economic Injury Disaster Loan Program even though as of February 12, none of the $20 billion appropriated for Economic Injury Disaster Loans had been obligated. [16] The Act also included another $7.25 billion for PPP.

Small Businesses are Being Serviced by the Credit Markets. It's a misnomer that credit markets are not providing funds to small businesses. Most small businesses are saying they are generally not looking for more credit.[17] Only three percent of respondents in a recent National Federation of Independent Business (NFIB) survey reported their borrowing needs were not satisfied. The survey also reported the following; "Twenty-six percent reported all credit needs met (up 1 point) and 60 percent said they were not interested in a loan (up 2 points). A net 3 percent reported their last loan was harder to get than in previous attempts (up 1 point)."[18] Small business credit conditions in December—based on the percentage of businesses reporting "easier" lending conditions vs. "harder" lending conditions—were identical to conditions one year prior, months before any COVID-19 impact began.[19]

This stands in stark contrast to the Great Recession more than a decade ago where credit conditions according to the same index plunged, taking years to recover to their pre-recession levels.[20] In fact, obtaining financing is the reported top concern of just 1 percent of small business owners. [21] In past economic crises, 37 percent have reported financing and interest rates as a top concern.

More Federal Government Lending to Businesses Crowds out the Private Sector. Our credit markets serve an important function of efficiently allocating resources across the economy. Usually, businesses and projects must compete with each other to obtain limited amounts of capital in order to secure the resources needed to function. Interest rates or return on equity serve as important price signals---and also determine which businesses ultimately will obtain the capital. The flow of capital from the federal government to private businesses alters this equation. By delivering capital at sub-market interest rates or sometimes in the form of outright grants, businesses which otherwise may not secure funding in a competitive environment from an investor find it possible to obtain capital—and to continue consuming limited resources.

The Small Business Administration (SBA) loan guarantees now secure more than 50% of all outstanding loan balances as of Q3 2020—up from less than 10% at the beginning of 2020.[22]

Reopening the Economy is Saving Small Businesses. Full economic recovery does not stem from stimulus checks or bailouts from Washington. Rather, it's largely a result of individuals and businesses safely and legally interacting with others. The historic economic rebound this summer proves that those properly informed of the actual risks of the virus and the appropriate mitigation measures are enthusiastically participating in this reopening.

Nationally, economic growth in last year's third quarter smashed all prior records — growing at a stunning 33.4% annual

[16] U.S. Small Business Administration, "COVID-19 EIDL Loans Report 2021," February 16, 2021, https://www.sba.gov/document/report-covid-19-eidl-loans-report-2021 (accessed February 24, 2021).
[17] William C. Dunkelberg and Holly Wade, NFIB Small Business Economic Trends, NFIB Research Center, December 2020, https://assets.nfib.com/nfibcom/SBET-Dec-2020.pdf (accessed February 23, 2021).
[18] Ibid.
[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Federal Reserve Bank of Kansas City, "kcFed Small Business Lending Survey," Chart 2, December 21, 2020, https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/smallbusiness/2020/small%20business%20lending%20survey%20template%203rd%20quarter%20-%2012212020v2.pdf?la=en (accessed February 24, 2021).

pace.[23] Record growth occurred even as government transfer payments and Paycheck Protection Program expenditures dropped by 20% in the quarter.[24]

The pace of the recovery varies widely across the nation due to lockdown restrictions—ostensibly implemented to contain the spread of the virus.

The Federal Reserve State Coincident Indexes—an approximation of state GDP—vividly illustrates how variant the economic recovery is based on states.[25] This index suggests economic output at the end of 2020 was actually greater than pre-pandemic in Utah, Missouri, Idaho, Nebraska, Alaska, South Dakota, Mississippi, and Georgia—notably states without crushing, long-lasting shutdowns. The economies in Hawaii, Michigan, Rhode Island, Massachusetts all remain more than 10% smaller. Meanwhile, states like New York, Hawaii, and Illinois remain mired in severe recessions. Only this month did Gov. Andrew Cuomo (D-NY) and Chicago Mayor Lori Lightfoot (D-IL) admit that their shutdowns of the service sectors may need to be relaxed.

In El Centro, California, 17.7% are unemployed, Los Angeles suffers from 9.9% unemployment. Across New York City, draconian restrictions and an army of compliance officers continue to push tens of thousands of businesses out of business, resulting in 8.4% unemployment.[26]

Meanwhile, unemployment in numerous communities in Alabama, Idaho, Iowa, Nebraska, South Dakota, and Utah is at 3% or less. The statewide unemployment rate of under 4% in Alabama, Iowa, Kansas, Nebraska, South Dakota, Utah, and Vermont contrasts sharply with rates at least twice as high in California, Colorado, Connecticut, Hawaii, Illinois, Nevada, New York, and Rhode Island.[27] Overall, in December, the 10 states with the fewest restrictions in place[28] averaged 4.7 percent unemployment—while the 10 states with the most restrictions averaged 7.1 percent unemployment.[29]

Conclusion:

Businesses across parts of the nation face economic hardship as a result of the myriad of COVID-19 restrictions enacted by state and local governments. Resolution requires governors and mayors to permit people once again to freely create, work, shop, and engage.

The economic misery persistent across portions of the nation should not be used an excuse to further expand government control over the financial system and credit allocation.

Any additional federal relief measures should provide legal protections for businesses to reopen and tailor aid to meet the health crisis.[30]

[23] U.S. Bureau of Economic Analysis, National Economic Accounts, Table 1, January 28, 2021, https://www.bea.gov/sites/default/files/2021-01/gdp4q20_adv.xlsx (accessed February 16, 2021).

[24] U.S. Bureau of Economic Analysis, Effects of Selected Federal Pandemic Response Programs on Personal Income, https://www.bea.gov/sites/default/files/2020-10/effects-of-selected-federal-pandemic-response-programs-on-personal-income-2020q3-adv.xlsx (accessed February 16, 2021).

[25] Federal Reserve Bank of Philadelphia, State Coincident Indexes, https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/coincident/coincident-revised.xls (accessed February 16, 2021).

[26] U.S. Bureau of Labor Statistics, Unemployment Rates for Metropolitan Areas, preliminary for December 2020, https://www.bls.gov/web/metro/laummtrk.htm (accessed February 23, 2021).

[27] U.S. Bureau of Labor Statistics, Unemployment Rates for Metropolitan Areas, preliminary for December 2020, https://www.bls.gov/web/metro/laummtrk.htm (accessed February 23, 2021).

[28] Adam McCann, "States with the Fewest Coronavirus Restrictions," WalletHub, January 26, 2021, https://wallethub.com/edu/states-coronavirus-restrictions/73818 (accessed February 4, 2021).

[29] U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Data Series, December 2020, https://www.bls.gov/web/laus/laumstrk.htm (accessed February 4, 2021).

[30] The Heritage Foundation's Coronavirus Commission articulates specific measures Congress can take, including the following: partnering with key strategic allies in Western Europe and the Indo-Pacific, removing barriers to free trade while simultaneously protecting intellectual property rights, and transitioning the temporary waivers and emergency exceptions in numerous sectors into

A full recovery requires a reopening rather than more fiat currency, borrowing, and government spending programs. Only then will we see both investment and consumption return in full force. Businesses don't need government largesse. And workers do not need more government mandates. What our nation needs is a continued reopening.

permanent regulatory reformSee *Saving Lives and Livelihoods; Recommendations for Recovery*, National Coronavirus Recovery Commission, a project of The Heritage Foundation, June 10, 2020, http://thf_media.s3.amazonaws.com/2020/NCRC_FINAL.pdf (accessed March 9, 2021).

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