

Economic Analysis of U.S. Senate Bill 3814



Reviving the Economy Sustainably Towards A Recovery in Twenty-twenty Act (RESTART Act)

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Table of Contents

Executive Summary.....	3
Introduction.....	3
RESTART Act.....	4
Brief Overview of the Current Economic Condition (Base Case).....	5
Economic Analysis.....	5
Cost Estimate.....	6
Benefits Estimate.....	6
Conclusion.....	7
References.....	8

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Reviving the Economy Sustainably

Towards A Recovery in

Twenty-twenty Act (RESTART Act)

by Charles F. Beauchamp, PhD, CTP®

Executive Summary

Initially proposed by Senators Bennet (D-CO) and Young (R-IN) in May 2020, the RESTART Act seeks to provide increased flexibility to the Paycheck Protection Program (PPP) recipients. It also provides a longer-term loan funding program (i.e., the RESTART program) than the original PPP to cover up to 6 months of payroll, benefits, and fixed operating expenses for the businesses hardest hit by the economic fallout due to COVID-19 and associated lockdowns by state and local governments. The goal of the RESTART Act is for businesses to use the 6 months of additional funding to restart or accelerate their operations. In addition, the Texas Public Policy Foundation examined the proposed REHIRE Act in the summer of 2020. Its hallmark provision was the inclusion of a grant for firms rehiring employees equal to 120% of the rehiring costs. If implemented, the RESTART Act, with an amendment that would include the REHIRE grants, represents an assistance package that is *timely* and *targeted* at those businesses most in need and at creating jobs, and *temporary* in that it has a 6-month cost cap on its loan program. Both the RESTART and REHIRE acts are rooted in private property rights in that the goal of each is to provide compensation for the cash inflow that government indirectly took from businesses during the economic lockdowns.

The results of an economic analysis of the RESTART Act are presented in this report. **Table 1** presents a summary of the study’s findings. They indicate that the act’s benefits outweigh its costs. After several months of impressive job reports from May through August 2020, the U.S. economy has momentum. The RESTART Act, amended to include the REHIRE grants, can aid and boost this recovery over the next year, putting more Americans back to work than would occur without the legislation.

Table 1
Summary of Findings from Cost-Benefit Analysis of RESTART Act

Cost-Benefit Metric	ESTIMATED RESULTS RANGE	
	As Written Without \$150B Allocation	Adding Rehire Bonus
Total Fiscal Cost	\$621.9 billion	\$698.9 billion
GDP Contribution	2.97%	3.34%
GDP Contribution	\$684.2 billion	\$768.7 billion
Additional Jobs	2.3 million	2.6 million

Introduction

Since the onset of the COVID-19 crisis, the federal government has taken extraordinary measures to mitigate the economic and financial fallout resulting from the behavioral changes to the virus and the government lockdowns. Its most significant contribution to this effort was the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which created the Paycheck Protection Program (PPP). Although the success of the CARES Act is still up for debate, the likely conclusion is one of success to varying degrees. It is important to note that the Act fell short of some of its intended goals due to structural inefficiencies.

In a recent analysis, Brown and Ozoguz (2020) document several shortcomings of the CARES Act. They explain how the Act was initially underfunded, forcing Congress to pass additional funding in late April 2020. Further, they explain how the Act’s tax rebate (“stimulus”) payments to individuals failed to induce spending that would reach many of the small businesses most affected by COVID-19’s economic impact. Although these problems are important, one of the Act’s hallmark provisions, PPP, designed to directly aid small business, fell short of its goals in several ways. Brown and Ozoguz (2020) point out how the first round of PPP loans did not reach the businesses that needed it most as measured by COVID-19’s economic impact. Further, U.S. Senators Bennet (D-CO) and Young (R-IN) acknowledged

issues with PPP, including its inflexibility with the use of funds by its recipients ([Office of Senator Todd Young, 2020](#)).

In an effort to address the shortcomings of PPP and provide further economic support, Senators Bennet and Young filed [Senate Bill 3814](#), Reviving the Economy Sustainably Towards A Recovery in Twenty-twenty (RESTART) Act. It contains corrections for the shortcomings of PPP and a new longer-term loan program for small and medium-sized businesses. In addition, the Texas Public Policy Foundation examined the proposed REHIRE Act this summer ([Beauchamp, 2020](#)). Its hallmark provision was the inclusion of a 120% grant to businesses for the cost of rehiring those employees terminated due to COVID-19. The Texas Public Policy Foundation supports amending the RESTART Act to add this provision to create a strong incentive for employers to accelerate hiring.

The U.S. employment situation is of utmost importance in the upcoming national elections. President Donald Trump placed an increased and renewed emphasis on employment during his acceptance speech at the Republican National Convention. Specifically, he set a goal for creating “10 million jobs in the next 10 months” ([Thrush, 2020](#)). The economy made impressive progress toward reaching this goal by creating 1.4 million jobs in August, the first month since his speech. In addition, former Vice President and Democratic candidate Joe Biden has called for creating 5 million jobs over an unspecified future period ([Kelly, 2020](#)).

This report provides an economic analysis of the RESTART Act with and without the proposed REHIRE amendment.

RESTART Act

The RESTART Act seeks to provide increased flexibility to PPP recipients. The Act also provides a longer-term loan funding program (i.e., the RESTART program) for small and medium-sized businesses.¹ The goal of the RESTART

Figure 1
Formulas for loan forgiveness

$$\text{Forgiveness}_{\text{SB}} = \left(1 - \frac{2020 \text{ Gross Receipts}}{2019 \text{ Gross Receipts}} \right) * 0.90 * (\text{Payroll} + \text{Benefits} + \text{Operating Costs})$$

$$\text{Forgiveness}_{\text{MED}} = \left(1 - \frac{2020 \text{ Gross Receipts}}{2019 \text{ Gross Receipts}} \right) * 0.90 * (\text{Benefits} + \text{Operating Costs})$$

¹ Generally, short- and long-term business cash flows, capital, etc. are classified based upon a period of 1 year. Specifically, items are considered short-term if they are received, spent, or mature in 1 year or less, with items greater than 1 year being considered long-term. The RESTART Act and its media coverage use the phrases *long-term* and *longer-term* quite frequently to describe the programs in the Act. However, it is important to note that the language of the bill stipulates that its loans are for no more than 6 months. So, the bill is funding short-term or working capital needs of any future recipients.

Act is for businesses to use the 6 months of additional funding to restart or accelerate their operations. As of September 2020, the bill has strong bipartisan support in the Senate including 56 cosponsors ([S. 3814](#)) and House with 153 cosponsors ([H.R. 7481](#)), and strong support from at least 60 national business association groups.

The RESTART Act would administer the loan funds through the existing PPP infrastructure, provisions, and guidelines. These loans are designed to cover up to 6 months of payroll, benefits, and fixed operating expenses. Businesses with zero to 5,000 employees that experience a decrease in revenue of at least 25% are eligible. The loans carry a 100% federal guarantee and are structured with 7-year maturities and capped at the lower of 45% of an applicant’s 2019 gross receipts or \$12 million. No interest payments are due for the first 12 months, while no principal payments are due for the first 24 months. The interest structure of the loans is fixed between 2% to 4% for the first 2 years and then converts to a variable rate tied to an applicable federal rate plus 250-600 basis points in years 3 through 7. The loans also carry origination fees based on a sliding scale similar to PPP, ranging from 0.75% to 3.75% depending on loan size. Eligible costs for the loans are payroll and benefits (up to \$100,000 per employee), rent, utilities, interest on existing debt, other scheduled debt service, and PPE purchases. Publicly traded businesses are ineligible for loan forgiveness. An important provision is that the loans carry *no* requirement for increasing the number of employees beyond that required for current operations.

Similar to PPP, loan recipients are eligible for loan forgiveness. Businesses with 500 employees or less get more favorable loan forgiveness. Loan forgiveness is determined according to the application of the two formulas in **Figure 1** (SB is small businesses, and MED is medium-sized businesses).

The RESTART Act and REHIRE Act grant amendment represent a partial repayment of the cash inflow the government indirectly took from businesses during the economic lockdowns.

The proposed amendment to the RESTART Act by the Texas Public Policy Foundation would provide a grant to loan recipients for rehiring those employees terminated since the outset of the COVID-19 crisis. Specifically, the grant is equal to 120% of the salary and benefits of each employee rehired on an annualized basis up to a \$100,000 cap, which is the same cap for salary and benefits under the RESTART Act.

Together, the RESTART Act and REHIRE Act grant amendment represent a partial repayment of the cash inflow the government indirectly took from businesses during the economic lockdowns. By closing the economy, the government prevents businesses from earning cash inflow which is the property of the businesses and their owners. The Fifth Amendment of the U.S. Constitution strictly prohibits this type of activity without *just compensation*. The subsidized loan program of the RESTART Act and the proposed REHIRE Act grants represent compensation for the cash flow lost by businesses through no fault of their own.

Brief Overview of the Current Economic Condition (Base Case)

In mid-March, state governments began partially locking down their economies to try to mitigate the health effects of COVID-19. The economic contraction that resulted was catastrophic. As illustrated in **Figure 1**, the labor market shed 22.2 million jobs from March to April, causing a peak in the unemployment rate of 14.7%, according to the Bureau of Labor Statistics (2020). Second-quarter gross domestic product (GDP) contracted by 31.7%, according to the U.S. Bureau of Economic Analysis (2020). To date, a large but yet-to-be-determined number of businesses of all sizes have permanently shut down.

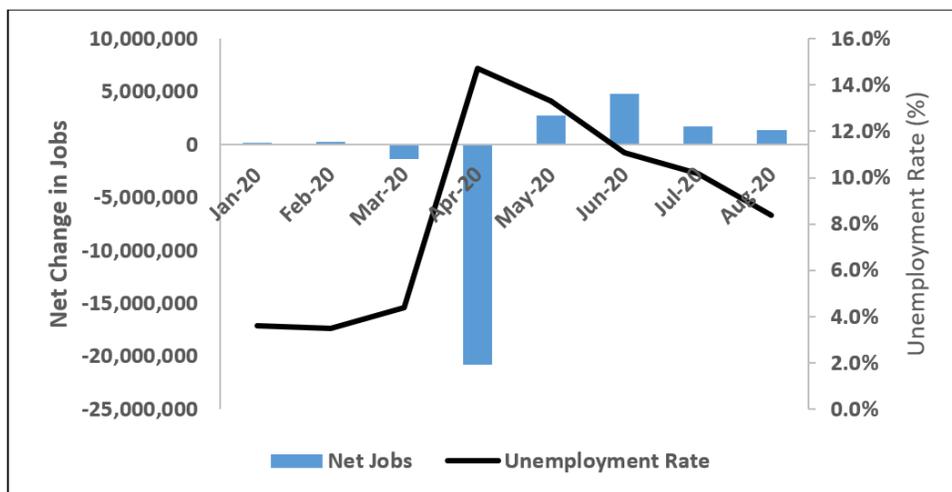
Although the economic contraction between March and April was severe, the economy entered a recovery in May. Since then, the economy has added 10.6 million jobs through August (Bureau of Labor Statistics, 2020). Third-quarter GDP is expected to rebound substantially by a 32.0% annualized rate according to the latest estimates from the Federal Reserve Bank of Atlanta’s GDPNow estimate as of September 17 (2020). Finally, a recent article by Myles Udland (2020) suggests that the manufacturing sector is experiencing “expansionary growth,” pointing to a potential V-shaped recovery in that sector.

While the economy is rebounding, there are still signs of weaknesses that could dampen the recovery, especially with respect to employment. Consumer confidence softened in August from its post-contraction highs in July (Federal Reserve Bank of New York, 2020). Not unrelated to this weakness in consumer confidence is the fact that 13.6 million people remain unemployed at the end of August. In addition, a recent National Federation of Independent Business (NFIB) report highlights the issues small businesses are experiencing in attempts to fill open jobs (NFIB, 2020). Specifically, some sectors are having a difficult time finding skilled workers to the point of having to offer higher compensation to fill positions. Many small businesses cited labor costs as their top problem. Given this uncertainty, many small businesses are “counting on additional financial assistance” from the federal government. Therefore, it is imperative that any future package passed by Congress focus on jobs and the short-term expenses of businesses.

Economic Analysis

A cost-benefit framework was employed to estimate the net fiscal impact of the RESTART Act. Total cost estimates were developed using an engineering model via sector analysis

Figure 2
Non-Farm (Seasonally Adjusted), Employment Dynamics



Source: U.S. Department of Labor Employment Situation Tables A & B

similar to the work of Misuraca (2014). These cost estimates represent a fiscal impulse in that the REHIRE Act increases the federal budget deficit for the 2020 fiscal year by 100% of its cost. Because the economy has abundant idle resources due to the economic contraction of the shutdowns, the application of fiscal multipliers is used to measure how the impulse affects economic output, specifically GDP. Estimated GDP is then translated into job creation estimates. This process is based on the work in Bivens (2010).

Cost Estimate

The RESTART Act targets small and medium-sized businesses. The total cost estimate of the Act is the sum of the individual cost estimates for each business category. The category estimates are based on recent and expected labor market activity, historical business activity, and assumptions of participation applied to the administration rules of the RESTART and REHIRE acts. The individual estimates focus on the following business categories:

- *Small Businesses or SBAs and Nonemployer Businesses or NES.* The former is defined as any business with 1-500 employees and meeting the Small Business Administration criteria. The latter is defined as any business with no employees, with annual receipts of \$1,000 or more and subject to federal income taxes.
- *Medium-sized Businesses* is defined as any business with between 501 to 5,000 employees and not meeting Small Business Administration criteria.

To assess the total cost of the RESTART Act, the model follows a process designed to estimate the number of businesses likely to participate in the loan process and their cost of doing so. For SBAs and medium-sized businesses, this total cost includes a 6-month loan equal to 6 months of total operating expenses, which includes payroll and benefits. For NES businesses, these expenses do not include payroll and benefits costs. The loans are capped at 45% of a business' estimated 2019 revenue or \$12 million, whichever is less. Data for this analysis were retrieved from the U.S. Census Bureau. The Census Bureau provides aggregated data on employee businesses, both SBA and medium-sized. Its *Statistics of U.S. Business (SUSB)* tables provide the number of businesses aggregated by the number of employees in ranges for the population of two-digit NAICS code sectors. The appendix files to these data were utilized to develop a distribution of these data. The Census Bureau also provides similar data for NES businesses.

Operating cost estimates for SBA and NES businesses were made across each NAICS code sector. They were calculated as a percentage of revenue based on historical data provided by the Risk Management Association's *Annual Statement Studies* (n.d.). For medium-sized businesses, a similar

approach was taken, except the source of the historical data was calculated from an analysis of the 2019 income statements of similarly sized, publicly traded businesses. Finally, a participation rate of 25% is assumed for eligible businesses based on the most recent results of the U.S. Census Bureau's *Small Business Pulse Survey*. Specifically, it indicated that 23.8% of small businesses are expecting to need financial assistance or additional capital in the next 6 months (U.S. Census, 2020).

In order to include the effect of a potential amendment for the inclusion of the rehiring grants as proposed in the REHIRE Act, payroll and benefits costs for estimated rehired employees were calculated. These estimates are based on the earnings data in the August BLS Employment Situation Summary. These estimates do not take into account seasonality across labor markets. The assumption is made that total costs accrue and are paid evenly across all 12 months of the year. The cost of each grant is estimated to equal 120% of 6 months of a rehired employee's total cost, including benefits, capped at an annual cost of \$100,000. It is important to note that it is impossible to designate a future hire as either a new hire or rehire. Therefore, it is assumed that all future hires are rehires, and the grants are apportioned accordingly. For a more thorough discussion of the cost estimate process, see Beauchamp (2020).

Finally, monthly GDP growth and employment estimates are based on a weighted average of V-shaped and U-shaped recovery estimates provided by the Federal Reserve (2020). These estimates were updated by the author to reflect the most recent information available (i.e., August employment figures). Based on these updated estimates, the baseline scenario that includes the natural rate of employment could add 7.4 million jobs over the next 10 to 12 months. Finally, the aforementioned cost estimates are calculated under these recovery assumptions and are used to finalize the total cost estimates under two scenarios. Scenario 1 is under the most updated policies and procedures of the RESTART Act, while Scenario 2 is under the same policies and procedures as Scenario 1 with the REHIRE Act's 120% employee rehiring grants included. The results of this cost analysis are presented in **Table 2**. The total cost ranges from \$621.9 billion under Scenario 1 to \$698.9 billion under Scenario 2.

Benefits Estimate

The next step in the analysis was to translate the fiscal impact of the costs outlined in **Table 2** to output gains as measured by GDP. To do so, the analysis made use of a fiscal multiplier equal to 1.1. This multiplier is based on a recent analysis of the CARES Act by economists at the Wharton School of Business (Arnon et al., 2020). That analysis suggested a multiplier for small-business loans and grants between 0.28 and 1.5. The current analysis uses near the

Table 2
Cost Estimates

Item Cost Category	As Written Without \$150B Allocation	Including Rehire Grants
Small Businesses	\$498,820,473	\$498,820,473
Nonemployer Businesses	94,987,879	94,987,879
Medium-Sized Businesses	28,155,223	28,155,223
REHIRE Act Grants		76,894,153
Total Cost	\$621,963,575	\$698,857,728

Notes: Figures in thousands of dollars and based on author's estimates.

Table 3
GDP Benefits Estimates

Program Duration Scenario	Total Fiscal Cost	Fiscal Multiplier	GDP Contribution	GDP Contribution %
RESTART Act	\$621.9 billion	1.1	\$684.2 billion	2.97
RESTART Act + REHIRE Act Grants	\$698.9 billion	1.1	\$768.7 billion	3.34

Table 4
Employment Benefits Estimates

Program Duration Scenario	GDP Contribution %	Employment Contribution	Increased Jobs
RESTART Act	2.97	0.53	2.3 million
RESTART Act + REHIRE Act Grants	3.34	0.53	2.6 million

higher-end multiplier due to the assumption that significant additional hiring over the natural rate of employment will likely not occur without fiscal assistance. Also, given that small businesses have suffered the greatest economic pain, and the bulk of the REHIRE Act is targeted at small businesses, there is further support for the higher multiplier as these businesses are more likely to deploy the loan and grant dollars quickly. Applying this multiplier to GDP over the next several years provides GDP estimates that exceed the total costs of the two scenarios, as noted in **Table 3**.

Next, the GDP estimates in **Table 3** were converted into the overall employment contribution of the RESTART Act. To do so, it is assumed that a 1% increase in GDP is associated with a 1% increase in labor hours. However, according to the Bureau of Labor Statistics, average weekly hours are down 5.6% in Quarter 1 of 2020. Annualized, this indicates that work hours will be reduced by 24.35% over the next year. In addition, labor productivity fell by 6.5% in the same quarter at an annualized rate of 28.65%. Therefore, it was estimated that a 1% increase in GDP will yield a 0.53% increase in employment. Although the productivity data for Quarter 2 are now available, Quarter 1 data are used given the unique and abnormal severity of Quarter 2. As

illustrated in **Table 4**, it is estimated that the RESTART Act as currently written will add 2.3 million jobs or 2.6 million jobs with the inclusion of the REHIRE Act grants.

Conclusion

The sponsors of the RESTART Act seek to increase flexibility to (PPP) recipients and provide a longer-term loan funding program (i.e., the RESTART program) to cover up to 6 months of payroll, benefits, and fixed operating expenses. These payment programs provide partial just compensation for the lost cash inflow incurred by businesses as a result of economic lockdowns. The results of the economic analysis of the Act presented in this report indicate that its benefits outweigh its costs. This finding proves factual for both the RESTART Act and the Act plus the inclusion of the REHIRE Act's 120% rehiring grants. The latter scenario provides an avenue for achieving President Trump's goal of creating 10 million jobs in 10 months. Further, after several months of impressive job reports from May through August 2020, the U.S. economy has momentum. The RESTART Act, with the help of the REHIRE grants, can aid and boost this recovery over the next year, putting more Americans back to work than would occur without the legislation. ★

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