CED Public Policy Watch No. 5
April 24, 2020

In this Brief:

New relief bill passes Congress
Pending state and local revenue shortfalls
Unemployment data
Immigration restrictions

New relief bill passes Congress

On Thursday, by a vote of 388-5, the House approved the "Paycheck Protection Program and Health Care Enhancement Act," a nearly $500 billion COVID-19 relief bill that tops up some existing response programs with additional funding. PPP-HCE already passed the Senate by a voice vote earlier in the week. Major components include:

> ***Paycheck Protection Program*** – an additional $310 billion, $60 billion reserved for loans from community banks
>
> The bulk of this funding will reopen the Paycheck Protection Program (PPP) after its initial appropriation of roughly $350 billion provided in the March CARES Act was oversubscribed after just a few weeks of applications. PPP, which provides potentially forgivable loans to COVID-19 impacted small business employers (and larger hospitality and restaurant chains) to incentivize retaining staff through the crisis, has received a lot of criticism based on the perception that the limited available funds flowed most quickly to larger, less impacted (or "deserving") firms with strong connections to large banks. Some of the criticism has been driven or amplified by the competition for the initially available funding and may be somewhat eased by additional monies. However, it is not clear that the additional funds will fully satisfy all demand for PPP. A National Federation of Independent Business (NFIB) survey of its members found that only 20 percent of those businesses that reported already submitting an application for a PPP loan had received funding.
>
> Recipients of PPP loans have not been made public yet but public companies who received PPP funds were required to disclose their receipt in SEC filings. One recipient, Shake Shack, returned their PPP loan funding after being highlighted in media stories

perceived to be critical. Some banks which originate PPP loans on behalf of the Small Business Administration (SBA) reportedly only offered loans to existing customers (likely because of the expediency with which that allowed them to discharge certain money laundering prevention responsibilities) and other banks were accused of favoring large customers at the expense of smaller ones. A number of small businesses with high fixed expenses (like restaurants in high rent cities hit particularly hard by revenue losses) have expressed concerns that requirements administratively imposed by Treasury/SBA, including that 75 percent of received funds go to payroll expenses, will make it difficult for them to successfully utilize the program.

PPP was designed to get money out quickly without a lot of administrative burden, but some policymakers have expressed concern that companies not as directly or significantly impacted by COVID-19 were still able to access funds. To be eligible, companies must attest that their business was impacted but there is not a clear standard or threshold for impact. Secretary Mnuchin has said that Treasury will issue additional guidelines on requirements for certification. Some Democratic and Republican senators have proposed alternatives to PPP that would impose a minimum share of monthly revenue lost as a threshold eligibility requirement (such requirements are utilized in some European programs where the government pays payroll costs to keep employees attached to employers).
Despite criticisms, the additional PPP funding was provided without any program rule changes but $60 billion is reserved for issuance by smaller "community" banks and credit unions – presumably to improve access to funding for smaller businesses not engaged with large financial centers.

Emergency Injury Disaster Loans (EIDL) – an additional $10 billion (with eligibility extended to agricultural enterprises) for EIDL grants, and an additional $50 billion for disaster loans

A long-standing disaster relief program that received $17 billion in funding (for grants and loans) from the earlier CARES Act, EIDL has been heavily criticized for technical difficulties (including a potential applicant data leak), low responsiveness, and massive over-subscription in the application process for the grant and loan programs. Reportedly, SBA received over $300 billion in combined EIDL loan and grant requests during the period in which applications were initially accepted.

Public health response – an additional $75 billion for hospitals addressing COVID-19 and an additional $25 billion to cover costs related to testing, both provided through the Public Health and Social Services Emergency Fund.

Pending state and local revenue shortfalls

Financial aid to the states is widely expected to be a major feature of "Phase 4" relief negotiations after Congressional Democrats were not able to get additional support included in the deal agreed to on Tuesday. President Trump included "fiscal relief to State/Local Governments for lost revenues from COVID 19" as a topic for the next piece of relief legislation (along with infrastructure investments; tax incentives for restaurants, entertainment and sports; and a payroll tax cut) when he announced his support for the Tuesday deal.

It is difficult to predict the magnitude of fiscal disruption to state and local governments as a result of COVID-19, the ultimate size of which will depend on how long and to what degree economic activity is limited by public health concerns, and how large and lasting the hit to aggregate demand is after the public health crisis is addressed. [A study of previous downturns found that every one percentage point increase in the average annual unemployment rate was consistent with a roughly $45 billion deterioration in the states' annual budget position, mostly due to revenue loss.] However, income and sales taxes, which typically make up roughly 60 percent of state and local own-source revenues, have likely already plummeted for the state fiscal year (which typically ends in June). Spending on unemployment insurance, Medicaid, and other forms of state financed services is also likely to increase for as long as the economic downturn lasts. States and localities are (hopefully) also incurring additional spending on public health and safety as part of their response to ending the COVID-19 epidemic.

As most states operate under some form of balanced budget requirement, borrowing is usually politically difficult, if not statutorily prohibited. (The CARES Act authorized the Federal Reserve to support state and local debt issuance, so states and localities willing to borrow should be able to find buyers for their debt issuance.) While many states have assembled record-sized rainy-day funds since the Great Recession, they will only help to limit, rather than eliminate, the extremely large expected near-term revenue shortfalls. In recent recessions, spending cuts have been the primary mechanism through which states and localities balance their budgets. However, cuts to public spending (including furloughs and layoffs among public-sector employees) during a period of economic weakness can be very harmful. A review of evidence from the Great Recession found that every dollar of state cuts that was averted by Federal transfers likely increased economic activity by at least $1.70.

The Federal Government provided states and localities with some relief funding in earlier legislation, including $110 billion for spending on COVID-19 response activities. However, those funds could not be used to cover shortfalls resulting from revenue declines or from non-crisis public services. The Federal government has also temporarily increased its cost-sharing rates for publicly funded health insurance programs like Medicaid, likely to be worth roughly $40 billion to states on an annual basis, and provided $30 billion for higher education. Since enactment of these measures, the National Governors Association has requested an additional $500 billion in aid just to state governments. The US Conference of Mayors in mid-March requested $250 billion in funding for cities. While the likely shape and size of Federal aid is unclear, a bipartisan pair of Senators (Cassidy and Menendez) recently proposed an additional $500 billion in flexible funding for states and localities.

Unemployment data

Data on last week's new Unemployment Insurance (UI) claims were released on Thursday, showing that more than 4 million Americans filed for benefits—down from over 5 million new claims the week prior. In the last five weeks, more than 24 million workers—equal to roughly 15 percent of the US's estimated labor force in mid-March—have applied for benefits. The aggregate number of UI claims in the last five weeks appears to be larger than in any comparable 40-week period on record, though changes in eligibility rules enacted in the CARES Act will make exact comparisons difficult.

Immigration restrictions

President Trump signed an executive order temporarily blocking some forms of permanent immigration. Applicants for permanent residency (a "green card") who live outside of the US will not have applications processed for at least 60 days. Additionally, the executive order suggests that additional measures focused on non-immigrant (i.e. foreign worker) programs will be announced within 30 days. Prior to the executive order, the President had announced that he intended to "suspend immigration" and had framed restrictions as avoiding "new immigrant labor from abroad" replacing laid-off American workers.