



CED Public Policy Watch No. 7

May 8, 2020

In this Brief:

- 1. PHASE IV COVID-19 PACKAGE?**
- 2. UNEMPLOYMENT INSURANCE CLAIMS**
- 3. REOPENING BEGINS ACROSS THE US**
- 4. VACCINE PROGRESS**
- 5. SPOTLIGHT ON REOPENING: SWEDEN**

1. PHASE IV COVID-19 PACKAGE?

Republicans on the Hill are following the lead of White House National Economic Council director Larry Kudlow who at the beginning of the week recommended a pause in the legislative response to the coronavirus outbreak. Their reasoning was that it was important to execute the relief that had been provided, more than \$3 trillion in direct relief and between \$4-\$6 trillion provided by the Federal Reserve, and also to see the impact of the states reopening their economies. Looking ahead, Kudlow had outlined the expectations that the next phase would move beyond liquidity and cash to traditional pro-growth policies, including tax cuts; he mentioned a payroll tax cut for workers, deduction for business entertainment expenses, deduction for new expenses related to COVID-19 such as investment in finding a vaccine, or new expenses to improve buildings so workers could return. The White House and Senate Majority Leader Mitch McConnell have also specified liability protection for reopened businesses as a priority. And have linked it to any aid to the states.

Meanwhile, House Speaker Nancy Pelosi was aggressively working to finalize a multitrillion dollar Democratic alternative bill to put on the floor for a vote that was certain to be along partisan lines next week. She and Majority Leader Steny Hoyer have both supported aid to state and local governments and have indicated that the next round could include \$1trillion for the states. While broader agreement on aid to the state and local governments remains controversial, there is Republican support on the Hill for protecting first responders from layoffs. Pelosi has also indicated it would include expanded funding for testing and contact tracing and new protections and higher pay for frontline workers.

Reportedly, there is also growing momentum for the bill to include the federal government directly stepping in and directly paying workers during the outbreak. The Democrats also mentioned money for vote by mail provisions and aid to the US Postal Service as important, as well as expanding access to broadband. Some House Democratic centrists reportedly have expressed concern that legislation without bipartisan support would send the wrong signal at this troubled time.

But overhanging the debate on the next round of aid is the question of how and when to bring the House back into full session, with Pelosi wanting them back next week. Agreement between the two sides on proxy voting and remote hearings is not in sight. The Senate returned to Washington this past Monday.

2. UNEMPLOYMENT INSURANCE CLAIMS AND MONTHLY EMPLOYMENT SITUATION REPORT

The monthly Employment Situation report for April released this morning (Friday, May 8) showed a headline unemployment rate of 14.7 percent. Unemployment in February, before any trace of the pandemic, was an extraordinarily low 3.5 percent; in March, reflecting probably two weeks of the troubles, it was 4.4 percent. The April rate reflected the week of April 12 (the survey is always in the week containing the 12th, which in April was a Sunday, so the latest possible survey week), and the labor market has clearly worsened since. The nonfarm payroll jobs number declined by 20.5 million, a one-month record drop.

The pandemic has put enormous weight on details in the employment measurement methodology. For example, it makes a substantial difference to the unemployment rate whether an individual reports a layoff as temporary or permanent. If permanently laid off but not yet looking for a new job, a respondent is “out of the labor force,” not “unemployed.” If temporarily laid off and not paid for any time during the survey week, whether or not seeking alternative employment, the worker is “unemployed.” In addition, workers who have their hours cut back but are still at work remain “employed.” (From an administrative standpoint, some surveys are usually undertaken in person; in the pandemic, of course, this is impossible.) To deal with the measurement ambiguities, some analysts will focus on what are called “alternative measures of labor underutilization.” The most prominent of those, called “U-6,” takes the unemployed, plus so-called “discouraged workers,” plus workers employed only part time “for economic reasons” (that is, involuntarily) as a percentage of the labor force plus those “discouraged workers” (who are not formally counted as part of the labor force). In February, U-6 was 7.0 percent; in March (reflecting only the bow wave of pandemic), it was 8.7 percent; in the latest release for April, it was 22.8 percent – more than one in five.

The weekly Unemployment Insurance claims released on Thursday (covering the week ending May 2) showed almost 3.2 million new claims (seasonally adjusted; there is not much that is seasonal about what is happening these days), for a total of more than 33 million (seasonally adjusted; almost 31 million not seasonally adjusted) over the seven weeks of the pandemic. The

“insured unemployment rate” (which reflects the labor force eligible for benefits) reached 15.5 percent. The count of claims has been blown in a maelstrom by the capacity of states to process claims, the complex expansions of eligibility to the self-employed and to “gig” workers in the CARES Act, and the simple rapidity of change. It is uncertain whether the count has caught up with the turmoil in the labor market, but there is no doubt that the dislocation is enormous.

And again, barring some totally unexpected and instantaneous positive developments, the next report (which will be based on a survey taken next week, the week including May 12) will show less employment and greater unemployment than this report.

3. REOPENING BEGINS ACROSS THE US

According to the [New York Times](#), 30 states are reopening or plan to reopen their economies (which of course is a highly judgmental concept) in the coming days. (Other outlets are reporting up to 40 states are reopening to one degree or another.) Graphs of the states’ new coronavirus case counts wiggle a lot, but arguably, 21 of those 30 states have higher new daily cases now than they did two weeks ago. In other words, those states violate the White House “Guidelines for Opening Up America Again” which require a 14 day “downward trajectory” in new cases. The Guidelines allow some flexibility for states that have a lower share of positive coronavirus tests than 14 days ago. But nine of the states that are reopening fail that test as well. And two of those states are actually testing less now than they were 14 days ago, and so their actual situations could be even worse. The White House has reportedly asked the CDC to revise their [draft reopening guidelines](#) presented to the White House Task Force this week.

An obvious question is whether reopening these states will result in renewed outbreaks of the coronavirus; given a reported 14-day incubation period, with contagion likely within that asymptomatic period, the jury on that question is clearly still out. But a further question is just how much additional economic activity will result from the reopening. A *Washington Post*-University of Maryland [poll](#) found that more than three-quarters of Americans would be uncomfortable eating out in a restaurant; more than two-thirds would be uncomfortable going to a retail clothing store; and substantial majorities oppose allowing restaurants, nail salons, barber shops and hair salons, retail shops, gyms and movie theaters to reopen. A sizable majority opposed even reopening golf courses. In other words, even if business establishments were to reopen, it is unclear how many customers they would have.

In New York, the epicenter of the outbreak in the United States, Governor Andrew Cuomo has announced that his lockdown order will remain in place through May 15. He will reopen the state by geographic units and by lines of business, relying on techniques like curbside pickups from retail stores to minimize exposure. Construction, manufacturing and some retail stores will reopen first, followed by a two-week evaluation. Then a second phase of reopening of professional services could follow, then restaurants, bars and hotels. Cinemas and theaters would be last in line to reopen. California has a similar plan, but some reopenings are occurring today. California retailers can reopen for curbside pick-up and manufacturers can restart

operations. Michigan manufacturers can restart Monday, although the stay at home order is still in effect. The CED Blueprint for Reopening can be found [here](#).

4. VACCINE PROGRESS

There are now approximately 90 alternative coronavirus vaccines under research worldwide. Nine are in the human clinical trial phase. According to Scott Gottlieb, former FDA Commissioner and co-author of the Road Map to Reopen, it is important for the US to look to the US manufacturers since every country will be looking to supply their own populations first before shipping out the vaccines. The latest breakthrough that has been highlighted is a vaccine from Pfizer, in partnership with the German company BioNTech. Four different versions of the vaccine are being tested simultaneously. Merck, Johnson & Johnson, Moderna and Inovio are also fairly advanced in their effort to develop a vaccine.

Beyond the development of a vaccine, which in past episodes of infection has taken up to 10 years but clearly is receiving intense effort in this case with a possible timeline of 18 months, there is the challenge of getting a tested, safe version to vaccinate on a global level similar to the decades long international effort to eradicate small pox. Assessments of the challenge have raised unlikely concerns such as the availability of enough medical glass or stoppers for vials. Manufacturing facilities are being built or expanded in anticipation of the massive demand; production of promising vaccines will begin even before their clinical trials are completed to expedite availability. Still unresolved is the question of potential pricing for such a life-saving product.

Simultaneously, there is effort toward a curative, which played the central role in combatting AIDS where there is still not a vaccine. The favorable trial results for remdesivir last week were an initial indication that other or more-efficacious remedies could be discovered. However, the remdesivir example also illustrates the potential pains and pitfalls. There are enough doses of the drug for only about one in nine active Covid-19 cases in the United States, and if the universe is extended to the entire world, for only about one in 27. There already is both confusion and dispute over the allocation of the drug here in the US, with no clarity about who is determining the distribution among hospitals, and the criteria for doing so. Ultimate pricing is the subject of debate (although the developer of the drug has volunteered to donate the existing inventory). Also unclear are the indications of who among the infected would most benefit from the drug, which only intensifies the debate over how to distribute the existing limited supplies among patients with different characteristics or degrees of severity of infection.

5. SPOTLIGHT ON REOPENING:

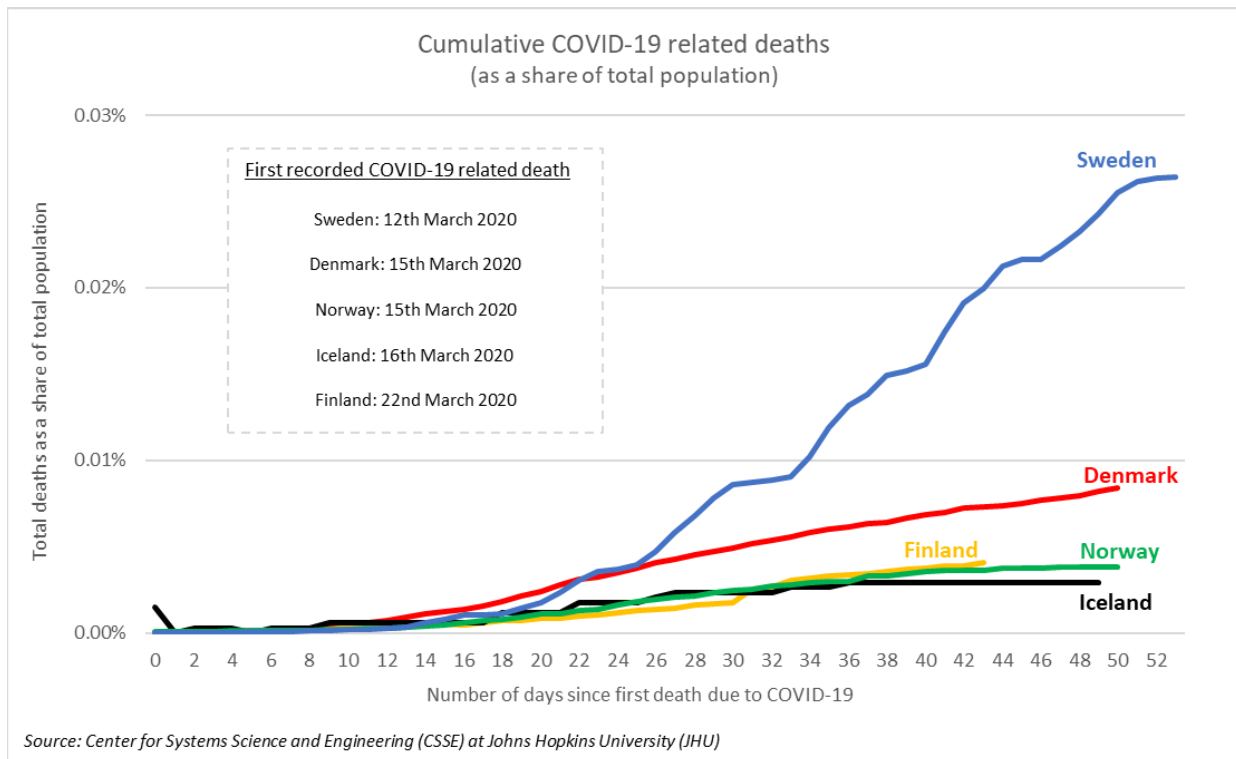
SWEDEN

Unlike many countries that shut down schools, banned large public events, closed non-essential businesses and imposed work-from-home where possible, Sweden has (so far) refrained from enforcing any strict lockdown measures due to COVID-19. While the country recently instituted a ban on gatherings of fifty people and above, it continues to allow restaurants, bars, offices, and schools to remain open (while encouraging people to stay at home if they feel ill and practice “good” behavior such as washing hands thoroughly and social distancing). Although Sweden has not introduced strict social-distancing laws, its people seem to be following recommended guidelines without the need for legislation. Statistics from various companies indicate that trips to otherwise popular Easter vacation destinations have dropped up to 96%, mobility in the capital city of Stockholm has dropped by almost 75%, and close to 50% of the workforce currently works from home.

Experts at the [World Health Organization \(WHO\)](#) noted that Sweden “put in place a very strong public policy around social distancing, around caring and protecting people in long-term care facilities,” and depended on the commitment of the people to self-regulate rather than enforcing lockdown measures. Furthermore, Sweden’s Foreign Minister has pushed back against the idea of no social distancing being implemented in the country by stating that, “We don’t have a radically different view... it’s a myth that life goes on as normal in Sweden.” So Sweden’s policy and public behavior are quite different from most other countries, but Sweden has not totally ignored the pandemic, as some might have inferred.

As of May 6th 2020, Sweden has reported 23,918 coronavirus cases with 2,941 deaths, the highest among the Nordic countries. In comparison, [data](#) from Denmark and Finland (which imposed strict early lockdowns to curb the spread of the infection) show 484 deaths and 30 deaths respectively. Iceland has recorded 10 deaths, and Norway has recorded 211 deaths so far. In terms of overall COVID-19 death rates, Sweden is higher than the United States (0.03% percent versus 0.02% percent). For perspective, Italy’s and South Korea’s mortality rates are 0.05 percent and 0.0005 percent, respectively.

While Sweden’s mortality rate is the highest in the Nordic countries, its [testing rate](#) is the lowest – at 14.7 tests per thousand population, about one-quarter behind Finland (19.51) and only about one-tenth of Iceland (151.27) (although the rate of testing has accelerated). Sweden conducts round 30,000 coronavirus tests per week. The percentage of tests showing up positive has plateaued at about one in six. Sweden’s mortality rate among cases confirmed by testing, at over 12 percent, is also higher than in other Nordic countries: 3 percent Norway; 4 percent in Finland; 5 percent in Denmark.



Although its per capita death rate is higher than its neighboring countries, Sweden's health officials indicated that the number of new cases had begun to "plateau" and decline, and that the nation's health system was coping well. Sweden's deaths per capita are also lower than France and the UK. Although a significant number of academics have signed an open letter calling for Sweden to reconsider its approach to the virus, the country's chief epidemiologist, Anders Tegnell, has maintained that Sweden's strategy to allow for "a slow spread of infection," so that a portion of the population can attain immunity, would ensure that health services do not become overburdened.

While the idea to let residents develop "herd immunity" had initially been considered and then subsequently rejected by a few other European countries (for example, the UK), Sweden's prevailing [culture](#) and [trust](#) in Swedish institutions, in addition to its geographic profile, may permit an easier management of such a strategy. As of 2019, the country [reported](#) a relatively low population density of 25.4 people per square kilometer (in contrast, according to the World Bank, UK's population density was 274.8 people per square kilometer in 2018). In addition, more than 50% of the households in Sweden are classified as "single person" households – allowing the population to follow social distancing guidelines more easily. The government's health officials have repeatedly argued that while Sweden may record more infections in the short term, it will not face the threat of a massive rise in infections that other countries may face after strict lockdowns measures are relaxed. Sweden's chief epidemiologist . Anders Tegnell has said that [sampling and modeling data indicated that 20% to 25% of Stockholm's population was immune to the virus](#). Tegnell has also noted that unlike a number of other countries, Sweden's health care system can always develop ahead of the curve of infections.

Sweden's strategy of keeping the economy "open," however, does not seem to be enough to escape a recession. Two grim economic [scenarios](#) for 2020 released by the country's central bank, the Riksbank, show outcomes depending on "how long the spread of infection continues and how long the restrictions implemented to slow it down are in place." The two scenarios (the second being "worse-case") show contractions of GDP of 6.9% and 9.7% respectively, unemployment rates of 8.8% and 10.1% respectively (higher than during the 2008 financial crisis), and inflation of 0.6% in 2020 in both cases. The [National Institute for Economic Research \(NIER\)](#) stated that "developments in April indicate that the Covid-19 pandemic will hit the Swedish economy much harder than anticipated... and the global economy is developing worse than expected which is hitting Swedish export companies which are also hampered by problems with international supply chains." In other words, Sweden is an open market economy, greatly reliant on exports. According to the World Bank, Sweden's exports and imports of goods and services (as a share of GDP) are 45.8% and 43.3% respectively. For comparison, exports and imports of goods and services (as a share of GDP) in the United States are 12.2% and 15.3% respectively. Thus, it is inevitable that any economic hit to the rest of the world would hit Sweden hard.

While the Swedish government had already [enacted](#) a SEK 100 billion budget measure to ease the economic blow due to the outbreak – through tax reductions, subsidies for shorter working hours, loan guarantees, as well as easier procedures for claiming benefits – it has reportedly decided against adding any new measures to support the economy. The government did, however, highlight that it was ready to do more if required, with the Finance Minister announcing that country was in "a good starting position with the lowest government debt since 1977."