CED Public Policy Watch
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1. **DEVELOPMENTS ON UKRAINE**
2. **GDP FALLS IN FIRST QUARTER**
3. **UNEMPLOYMENT CLAIMS HOLD STEADY AT LOW LEVELS**
4. **EU ADOPTING DIGITAL MARKET ACT**
5. **JAPAN STIMULUS PACKAGE**
6. **PHASING OUT INCANDESCENT LIGHT BULBS**
7. **FED VICE CHAIR CONFIRMED; OTHERS WAITING**
8. **IRS DIGITIZATION PROCESS MOVING FORWARD**
9. **COMPETENCY-BASED EDUCATION**
10. **PANDEMIC NEWS**
11. **COUNTRY SPOTLIGHT: CHINA**

1. DEVELOPMENTS ON UKRAINE

The week began with a visit to Kyiv on Orthodox Easter by Secretary of State Anthony Blinken and Secretary of Defense Lloyd Austin. Blinken said "Ukraine is succeeding" while Russia is failing in its war aims, and Austin was quoted as saying the US wants to see Russia "weakened" militarily, stating that Ukraine has "the mindset that they want to win and we have the mindset that we want to help them win." The UK is apparently considering supplying Ukraine with anti-ship missiles, in part to assist with food exports from Ukraine through the Black Sea, according to UK Defence Secretary Ben Wallace: "We have said we will source and supply, if we can, anti-ship missiles. It's incredibly important that grain that affects us all, the food prices, does get out of Ukraine. It can't control the Black Sea. It's not theirs anymore. And therefore making sure that Russian ships are not used to bombard cities is important." Wallace also revealed that Russia has lost about 15,000 troops in the invasion.

Russia has continued bombing railroad stations in central and western Ukraine as well as supply lines leading to Ukraine's coast and east. Russia also attacked Kyiv during UN Secretary General António Guterres' visit, which the *Guardian* described as "a move that was hard to see as anything other than Moscow mocking the institution." Guterres had visited Moscow the day before. NATO Secretary General Jens Stoltenberg said that "there is absolutely the possibility that this war will drag on and last for months and years." When asked whether the current situation was analogous to the Cuban Missile Crisis, Russian Foreign Minister Sergei Lavrov said that Russia was striving to prevent nuclear war but that "[t]he risks now are considerable. I would not want to elevate those risks artificially. Many would like that. The danger is serious, real. And we must not underestimate it." Lavrov's comments prompted a critical response from President Biden, who said, "No one should be making idle comments about the use of nuclear weapons or the possibility of the need to use them," Biden said, calling the rhetoric "irresponsible." US defense officials also condemned the comments.

The shelling of a government building in the breakaway Transnistria region of Moldova continued to raise fears that the war could widen, as a Russian official stated that Russia "was concerned" over the situation. Further, President Putin said that Russia's response to outside intervention that "creates unacceptable strategic threats for us" would be "swift, lightning fast." Finland and Sweden have reportedly agreed to submit applications to join NATO, which Secretary Blinken said the US would "strongly support" if they choose to do so.

Russia cut off gas shipments to Poland and Bulgaria because the countries, complying with EU sanctions, refused to pay in rubles. Russia also warned that any shipments diverted to the countries from pipelines heading further west would lead to proportional reductions in shipments. Poland claims it has sufficient gas supplies in storage, but Prime Minister Mateusz Morawiecki called the cutoff a "direct attack" on Poland. Kremlin spokesman Dmitri Peskov appeared unconcerned about the budgetary impact of Russia losing its energy markets in Europe, stating, "Everything has been calculated, all risks have been forecast and necessary measures taken." The *Financial Times* reported that some European companies are apparently considering paying for gas in rubles, but the EU warned that this would violate European sanctions: "What we cannot accept is that companies are obliged to open a second account and that between the first and second account, the amount in euros is in the full hands of the Russian authorities and the Russian Central Bank, and that the payment is only complete when it is converted into [rubles]."

On Thursday, the President proposed a supplemental budget request of $33 billion to address defense and economic needs related to the war; money Congress previously authorized for Ukraine has already been allocated. He said that "[t]he cost of this fight is not cheap, but caving to aggression is going to be more costly if we allow it to happen." The plan proposes $20.4 billion for additional security and military assistance for Ukraine and for NATO allies and other regional partners. Weapons for Ukraine include artillery, armored vehicles, anti-armor, and anti-air capabilities. The plan also provides $8.5 billion in economic assistance to Ukraine; support for Ukraine's natural gas purchases and agrobusinesses during the harvest; and $3 billion for other humanitarian needs caused by the war, including for Ukrainian refugees and for countries whose food supplies have been cut. The President also proposes an extra $500 million in food production assistance to support US farmers producing wheat and soybeans to address global shortages. Further, the Administration will also seek legislative changes to permit that assets seized from sanctioned individuals may be used to help Ukraine and to criminalize "knowingly or intentionally possess proceeds directly obtained from corrupt dealings with the Russian government [.]"

To address the cutoff of grain shipments from Ukraine, the US will also provide $670 million in food assistance, including $282 million for Ethiopia, Kenya, Somalia, Sudan, South Sudan and Yemen. The money comes from the Bill Emerson Humanitarian Trust, a special fund for emergency food assistance. It is the first time since 2014 the fund has been used, and the first time ever the trust has been depleted completely to address a humanitarian emergency. In other economic news, the EU is considering suspending all import duties on Ukrainian products, though this would require approval from the European Parliament and all Member States. Britain has already suspended tariffs on Ukrainian goods.

The President nominated career foreign service officer Bridget Brink as Ambassador to Ukraine. The Administration announced the Uniting for Ukraine initiative, under which up to 100,000 Ukrainians will be granted admission to the US for two years, with permission to work, with potential sponsors vetted by the Department of Homeland Security. The UN said that up to 8.3 million Ukrainians could flee into neighboring countries, plus several million more internally displaced in Ukraine.

2. GDP FALLS IN FIRST QUARTER

Real gross domestic product (GDP) declined by 1.4 percent in the first quarter of 2022 as reported this week by the Bureau of Economic Analysis. This is a marked downshift from growth of 6.9 percent in the previous quarter and may stoke fears of a recession that have already emerged as the Federal Reserve tightens monetary policy to combat widespread inflation. A resurgence of COVID-19 in the Omicron variant, high prices, supply chain challenges related to the pandemic and the war in Ukraine, and a decrease in government assistance related to the pandemic all contributed to the figure. This quarter marks the first quarter of contraction since Q2 2020 when COVID restrictions were at their highest.

The decrease in real GDP reflected decreases in private inventory investment, exports, federal government spending, and state and local government spending, while imports, which are subtracted in the calculation of GDP, increased. Consumer spending, nonresidential fixed investment, and residential fixed investment increased. In a statement, the President emphasized that “Last quarter, consumer spending, business investment, and residential investment increased at strong rates. The number of Americans on unemployment insurance remains at the lowest level since 1970.” He noted that the latest GDP estimate was “affected by technical factors.”

3. UNEMPLOYMENT CLAIMS HOLD STEADY AT LOW LEVELS

Initial claims for unemployment insurance (UI) decreased by 5,000 to 180,000 for the week ending April 23 (last week’s claims were revised up by 1,000). The usually volatile series has been holding relatively steady with the four-week moving average sitting at 179,750. Jobs remain plentiful, and the number of unemployed people looking for jobs is relatively low. The Bureau of Economic Analysis reported this week that economic growth dropped sharply in the first quarter of the year. If this trend continues, employment trends may follow suit, but for now, the labor market remains tight. Continuing claims also held steady at record lows, standing at 1.41 million for the week ending April 16.

4. EU ADOPTING DIGITAL MARKETS ACT

Negotiators for the European Parliament and European Council reached agreement on the proposed Digital Markets Act, which would place restrictions on large technology platforms defined as “gatekeepers” and give the European Commission new powers to investigate and punish anti-competitive behavior. The Act would apply to companies offering “core platform services” such as social networks or search engines with a market capitalization above €75 billion or annual turnover of €7.5 billion. The Act would apply to all companies globally so long as they have at least 45,000,000 “monthly active end users” in the EU and more than 10,000 “active business users” in the EU over the preceding year. The EU argues that “unfair practices in the digital sector are more frequent and pronounced in certain digital services than others. This is the case in particular for widespread and commonly used digital services and infrastructures that mostly directly intermediate between business users and end users,” justifying the focus on certain types of very large companies among the estimated 10,000 platforms operating in Europe. Notably, social media companies (including messaging services) will have to interoperate with smaller messaging services, including provisions for file sharing across platforms. Use of personal data for targeted advertising will require explicit consent from consumers. Penalties would be strict: the European Commission could impose fines of up to 10% of the violator's total worldwide turnover and 20% "in case of repeated infringements," while if the Commission finds "systematic infringements," it "may ban them from acquiring other companies for a certain time."

The text just agreed will have to be translated into all official EU languages and approved again by Parliament and the European Council (which is almost certain after the recent agreement). The Act will then come into force 20 days after its publication in the EU's Official Journal, with an effective date six months after that, for implementation likely at some point in the first half of 2023.

5. JAPAN STIMULUS PACKAGE

Bucking a global trend against further economic stimulus, Japan's Prime Minister Fumio Kishida announced a ¥6.2 trillion (US $48 billion) spending package to respond to high inflation, particularly high energy prices following Russia's invasion of Ukraine. Major items in the package include ¥1.5 trillion ($11.78 billion) will go to raise subsidies for oil wholesalers in the hope this will reduce retail gasoline prices, ¥1.3 trillion ($10.2 billion) to cover a ¥50,000 payment for each child, and ¥1.3 trillion ($10.2 billion) will be used to lower the interest rate on loans for small and midsize companies, plus additional subsidies for livestock farmers. The package will be financed by ¥1.5 trillion ($11.78 billion) in current reserves for emergency spending, ¥ 2 trillion ($15.7 billion) from the current budget, and ¥2.7 trillion ($21.2 billion) from a forthcoming "extra budget." The package was reportedly pushed by the Komeito party, junior partners with Kishida's Liberal Democratic Party in the current government, to address voters' inflation concerns before elections for the Upper House of Japan's Diet in July.

6. PHASING OUT INCANDESCENT LIGHT BULBS

The Energy Department will soon publish two new rules that will end the sale of most incandescent and halogen consumer light bulbs in the US. Under the new rules, "general service lamps" will be redefined and light bulbs must have a minimum standard of 45 lumens per watt, effectively adopting a standard for LED and fluorescent bulbs. The Administration justifies the change as part of its emissions reduction strategy, cutting 222 million metric tons of carbon emissions over the next 30 years, and also predicts that consumers will save nearly $3 billion per year in utility bills. The original phaseout of incandescent bulbs was supposed to take place in January 2020, but a 2017 rule to that effect was repealed in 2019. The Administration is now proceeding with a final rule based on its proposal of August 2021, for which it received additional comments. The rules will be effective 60 days after publication in the Federal Register, but Energy has promised enforcement discretion for manufacturers, importers, and sellers of light bulbs during a transition period, "with an emphasis on transitioning production first." Opponents including the American Lighting Association had asked for a two-year delay in implementation of the new rules, but this was denied in the final rule. Enforcement for manufacturers is expected to begin January 1 and for retailers in August. One analysis suggests that non-compliant bulbs comprise up to 30 percent of current US sales.

7. FED VICE CHAIR CONFIRMED; OTHERS WAITING

The Senate confirmed current Federal Reserve Governor Lael Brainard as vice chair of the Federal Reserve. However, with the absence of two Democrats from the full Senate, the Senate delayed a final vote on the nomination of Lisa Cook, an economist currently on the board of the Federal Reserve Bank of Chicago, who focused early in her career on the Russian economy. The nomination of Jerome Powell for a second term as Chair and economist Philip Jefferson for a term as Governor remain pending.

8. IRS DIGITIZATION PROCESS MOVES FORWARD

This week the IRS awarded three contracts worth $7.5 million as part of the Pilot IRS program for digital modernization services. Optical character recognition (including from low-resolution documents) and secure digitization of tax forms are key elements of the new initiative. Eventually, the program will process over 1 billion pages, according to the IRS. The IRS faced a backlog of up to 4.7 million unprocessed returns as of March; paper filers can wait up to 10 months for refunds.

9. COMPETENCY-BASED EDUCATION

Earlier this month, Rep. Glenn Grothman (R-WI) introduced the proposed Competency-Based Education Act. Competency-based education is an approach that allows students to progress through courses once they have proven mastery, as opposed to on a semester basis. The format rewards prior knowledge and experience, values skills and learning over seat-time, and allows students to complete coursework at a pace that matches their needs. The Act would assist universities in cultivating these learning environments in an effort to foster more timely transitions to meaningful careers and lessen student loan debt.

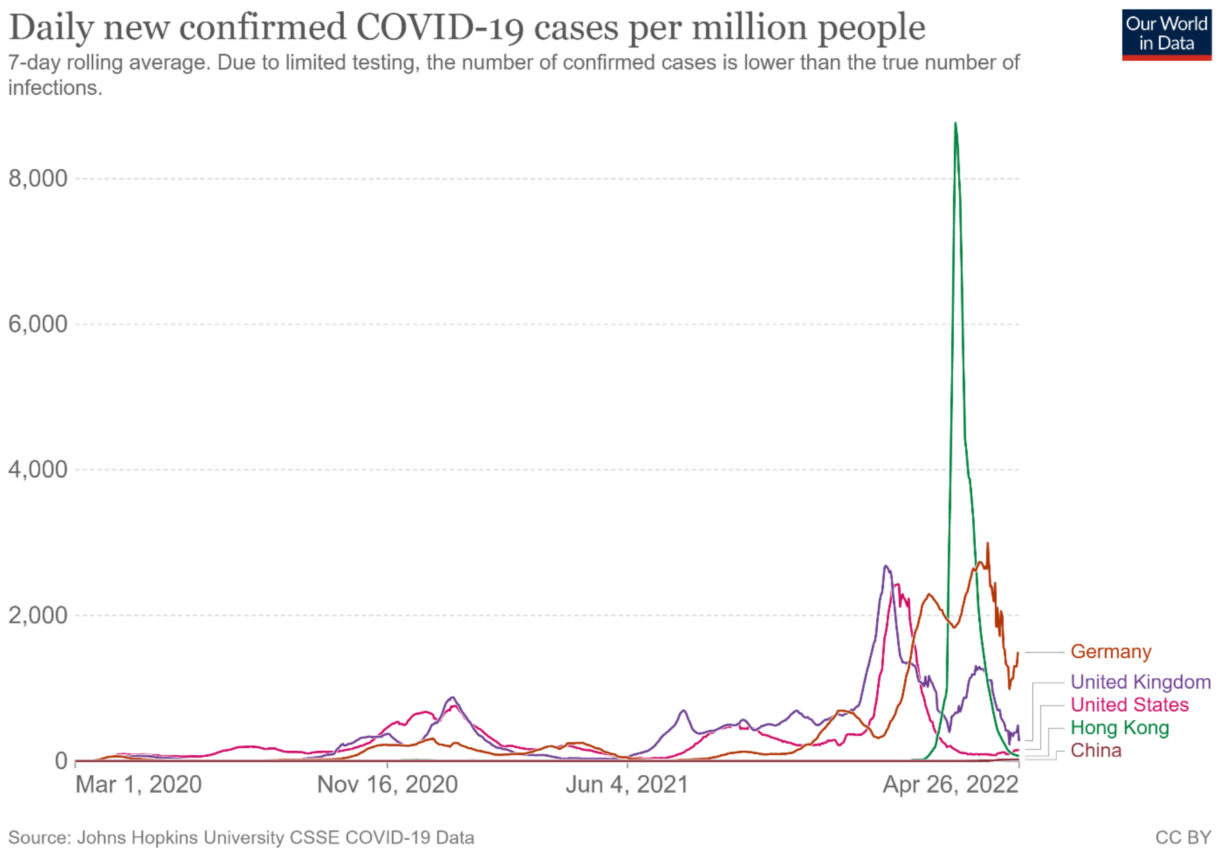
10. PANDEMIC NEWS

Pfizer asked FDA for authorization of booster doses for children ages five through eleven who have received the two-shot regimen. Pfizer and BioNTech submitted data to the FDA on Tuesday showing that a low-dose booster shot is safe for the age group and could offer protection against the Omicron variant. Currently, boosters are only authorized for individuals aged twelve years and older. The White House announced a campaign to double the number of pharmacies where the antiviral drug Paxlovid is available. Paxlovid, authorized for use in December, reduces the risk of COVID-19 hospitalization by 90 percent. The drug is authorized for use in patients aged twelve years and older who test positive for COVID-19 and have a preexisting condition which makes them at high-risk of developing a severe case. The drug has been slow in its rollout, failing to reach many Americans eligible for treatment. In the coming weeks, tens of thousands of pharmacy locations will be able to order the drug directly from the federal government. Dr. Anthony Fauci made comments expressing optimism about the state of the pandemic in the US, noting that the US has moved out of the “pandemic phase” and into a “control” phase. On Wednesday, Fauci clarified what he called "some maybe understandable misinterpretation" of his remarks. "What I'm referring to is that we are no longer in the acute fulminant accelerated phase of the outbreak," he said, referring to the terrible heights the pandemic previously reached in the US.

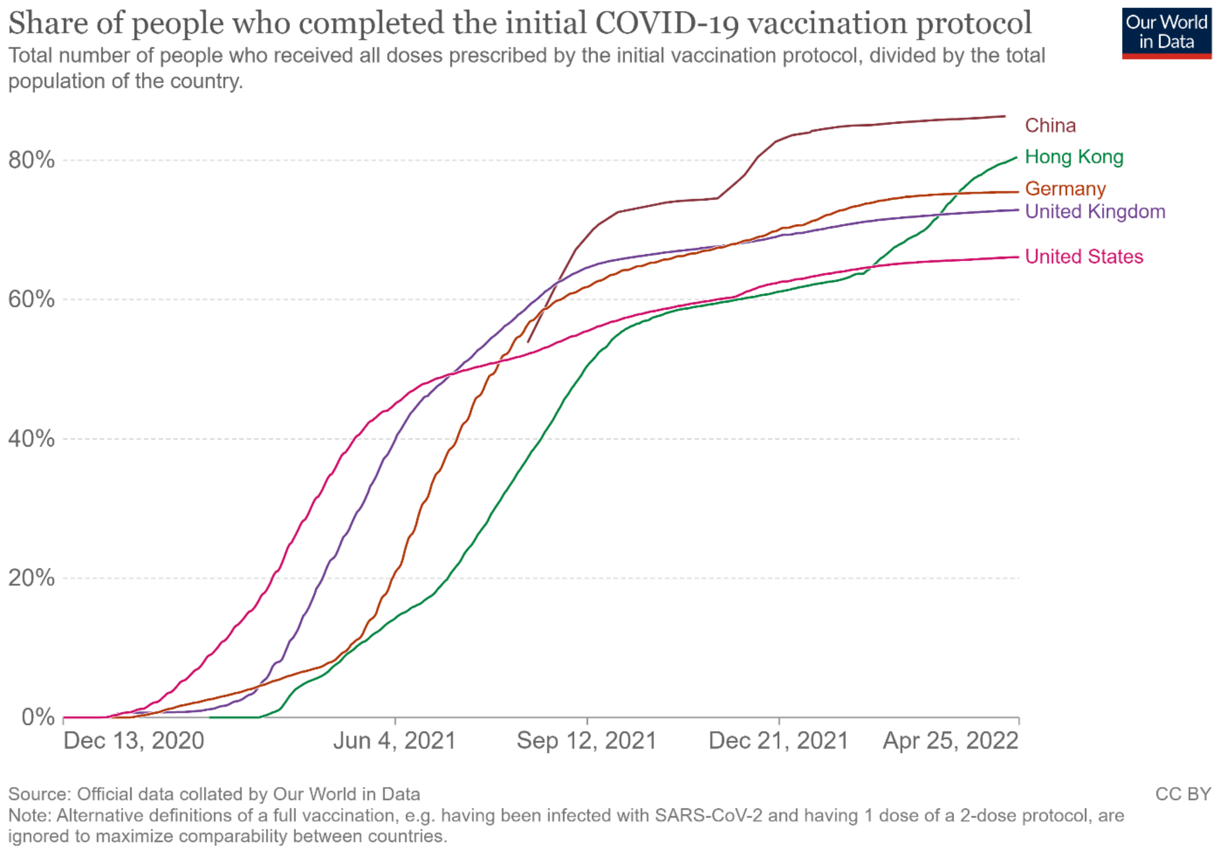
11. COUNTRY SPOTLIGHT: CHINA

Authorities announced that Beijing will begin conducting mass testing on most of its population of 21 million. Despite recording only 80 cases since the start of Beijing’s COVID-19 outbreak on Friday, authorities rolled out strict measures under China’s “dynamic zero” COVID policy. The capital city began its mass testing protocol on Monday with the first of three rounds of testing in Chaoyang, a bustling district home to Shanghai’s business center and foreign embassies, with ten more districts following on Tuesday. The possibility of a Shanghai-style lockdown has foreign businesses in the capital city on high alert and has sparked fear in its citizens, who engaged in a frenzy of panic buying. Long lines formed at grocery stores and shelves emptied. On Monday, the number of orders tripled on grocery-buying app

Meituan Maicai, according to state-run newspaper *Beijing Daily*. As case numbers in Beijing topped 113 on Wednesday, pressure is growing on local officials to contain infection.



Shanghai's 25 million residents have been under a lockdown since March with China's largest COVID-19 outbreak since 2020. Shanghai's residents have been required to stay at home; public transportation has been suspended, and grocery stores are closed, leaving residents dependent on grocery orders and government residential drop-offs. Residents have spoken out on social media against the living conditions of the lockdown, reporting food shortages and inaccessibility to medical care. Government censors removed a posted video titled "Voices of April" documenting the harsh impacts of the nearly month-long lockdown. An online backlash ensued, with social media users posting the video in whatever way possible in an attempt to evade censors. Earlier this week, authorities in Shanghai began installing metal barriers around the city to seal off streets, leaving only small openings for pandemic workers to pass through. In Pudong, the city's financial district, thin metal sheets were put up in several neighborhoods, according to Caixin, a Chinese business media outlet. The barriers are meant to leave main roads unblocked. On Wednesday, Shanghai officials signaled that there may be some easing of restrictions in certain areas of the city after case numbers fell for a fourth consecutive day.



Hong Kong leader Carrie Lam announced Tuesday that there are no plans to further relax border controls. Lam said that the government will instead continue to move forward with its three-stage easing plan announced last month despite case numbers falling to a nearly three-month low. "As far as border controls, these are still very important measures in order to reduce the importation of infected cases into Hong Kong, especially when many places are already removing their restrictions and social-distancing measures," Lam told reporters. Hong Kong laid out a roadmap for easing restrictions in mid-March, acknowledging the damaging effect that adhering to a zero-COVID policy would have on the financial hub. After enjoying a reputation as a success story throughout the majority of the pandemic, Hong Kong suffered a soaring death toll last month due to the Omicron wave. Hong Kong's battle with Omicron showcased the threat the virus poses in a dense urban setting with low immunity: Hong Kong was hardly touched by previous waves and its elderly population were largely unvaccinated. By early March, fewer than half of people aged 70 or older were fully vaccinated.