



CED Public Policy Watch No. 8

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1. UPDATE ON CONGRESSIONAL ACTION

House Democrats released a new COVID-19 relief bill proposal on Tuesday (the “HEROES Act”), which is expected to be voted on today along partisan lines. This will be the first vote on a COVID-19 relief bill that will not have strong bipartisan support. There is no formal cost estimate for the bill but, as written, it is estimated to be an additional \$3 trillion which would likely more than double the spending authorized for COVID-19 relief to date. The House bill is viewed as the Democrats’ opening bid to help shape and size additional relief measures. Republicans in the Senate and the White House have argued that more of the already enacted relief dollars should be distributed, and the impact of those dollars should be assessed, before taking additional legislative action, and have suggested their own [priorities](#) for future legislation, including expanded [liability](#) protections for businesses and [cuts](#) in capital gains and payroll taxes.

The provisions of the House bill include:

- *State and local aid*
 - Nearly \$1 trillion in fiscal aid to state (\$500 billion) and local (\$375 billion) governments, tribes (\$20 billion), and territories (\$20 billion).
 - An extension and increase of Federal cost-sharing for Medicaid (an increase of the FMAP rate by 14 percentage points for one year starting July 2020; a temporary 6 percentage point increase is currently in place).
 - \$100 billion to states, school districts, and universities.
 - \$31 billion to states and transportation authorities for highways and public transit.

- Direct cash payments - A second round of direct cash payments to households, similar to the CARE Act provision, but increasing per child payments from \$500 to \$1,200 and extending payments to include tax filing households who have members without social security numbers who were excluded from the CARES Act. The total estimated cost is more than \$300 billion.
- Hazard pay - \$200 billion for hazard pay benefits (“Heroes Fund”), providing an additional \$13 per hour for every hour worked (excluding remote work) from January 27, 2020 until 60 days after the end of the declared public health emergency, for essential workers making less than \$200,000 annually.
- Extension of expanded unemployment benefits – An extension of the \$600 increase in unemployment benefits, currently set to expire at the end of July, to January 2021.
- Health-related measures
 - Funding to help cover health insurance costs for newly or recently unemployed workers (and their families) who have lost employer-sponsored coverage.
 - \$75 billion for coronavirus testing and contact tracing.
- Aid to businesses
 - \$10 billion in emergency disaster assistance grants to small businesses that have not received a PPP loan.
 - A six-month extension of the Employee Retention Tax Credit (estimated to cost roughly \$200 billion).
- Changes to individual tax deductions and credits
 - Repeal of the State and Local Tax (SALT) deduction cap implemented in the 2017 tax law for 2020 and 2021.
 - Expansion of the Earned Income Tax Credit benefit for lower-income workers without custodial children.
 - Full refundability of the Child Tax Credit in 2020 and an increased credit (+\$600) for children under six.
 - Full refundability of the Child and Dependent Care Tax Credit in 2020, and significantly increased credit size and income eligibility.
- Additional aid to families
 - \$75 billion for direct assistance with mortgage payments, property taxes, property insurance, utilities, and other housing related costs; and \$100 billion in rental assistance to help families at risk of eviction.
 - A 15 percent increase in Supplemental Nutrition Assistance Program benefits, and a waiver of work requirements (mirroring changes enacted during the Great Recession).
 - Extension of the Federal student loan payment pause for an additional year (through September 2021), and forgiveness of \$10,000 of student loan balances per borrower.
- Elections - Roughly \$4 billion for election safety and to help states institute voting by mail.
- Child care – An additional \$7 billion for the Child Care and Development Block Grant to states and localities.
- United States Postal Service - \$25 billion for USPS operations to backfill lost revenue.

2. UPDATE ON CARES ACT RELIEF SPENDING TO DATE

Paycheck Protection Program (PPP)

By the end of last week, the Small Business Administration had approved loans totaling roughly \$530 billion for PPP loans out of an available appropriation of roughly \$659 billion. After an initial \$349 billion tranche of PPP guaranteed loan funding was exhausted within the first two weeks of the program's operation, Congress approved an additional \$310 billion. However, only an estimated \$13 billion in loans were approved last week, signaling a sharp drop in the volume of loan approval (from 442,000 loan approvals per day the week ending May 1 to 52,000 loans per day the week ending May 8).

Some [analysts](#) have suggested that the drop in lending volume reflects that a large number of interested borrowers have already secured a loan, a decline in demand owing to changes in program rules (SBA added a requirement that borrowers use at least 75 percent of their loan proceeds for payroll), [uncertainty](#) over final eligibility rules and conditions (including [guidance](#) that retroactively established a more strict scrutiny on the extent to which borrowers were impacted as a result of COVID-19 and whether they had alternative sources of credit available), and a souring business outlook (to qualify for full loan forgiveness, borrowers were expected to rehire to pre-COVID-19 payroll levels by the end of June).

An SBA Inspector General [report](#) found that the SBA-imposed rule requiring that borrowers use 75 percent of loan proceeds on payroll was not consistent with the CARES legislation, "could result in an unintended burden to the borrowers," and would result in thousands of borrowers having to repay (over the course of two years, at low interest rates) some PPP funds spent on nonpayroll expenditures.

CARES Act Direct Aid "Relief" Checks

As of Friday, May 8, the IRS reported that it had issued under the CARES Act 130 million of 150 million expected direct payments to households, worth roughly \$200 billion. Most of the remaining payments will be issued as paper checks, and mailed to households between now and August.

Unemployment Insurance and Pandemic Unemployment Assistance

As part of the CARES Act, Congress passed a \$600 increase in all weekly unemployment benefits through July (called Pandemic Unemployment Compensation, or PUC). PUC benefits were paid out in most states as of mid-April. In addition to the extra PUC benefit, the CARES Act provided for a so-called Pandemic Unemployment Assistance (PUA) benefit for workers not normally covered by unemployment insurance (UI), aimed toward people like the self-employed and contractors. However, according to one [analysis](#), as of May 12, only 37 states had begun paying out PUA benefits. With these limitations, as of April 25, more than three million people were receiving PUA benefits and more than two million additional people had applied for them.

States paid out \$48 billion in UI benefits in April, offsetting about half of the [estimated](#) decline in wages and salaries. The extent to which PUC and PUA helped to further offset that drop in income is not yet clear.

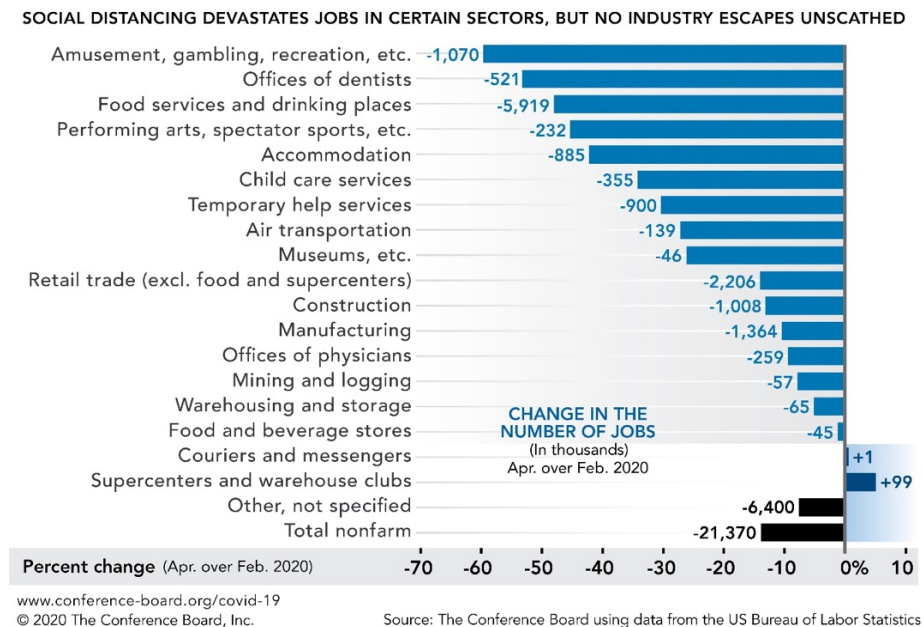
3. FEDERAL RESERVE CHAIR JAY POWELL SPEAKS

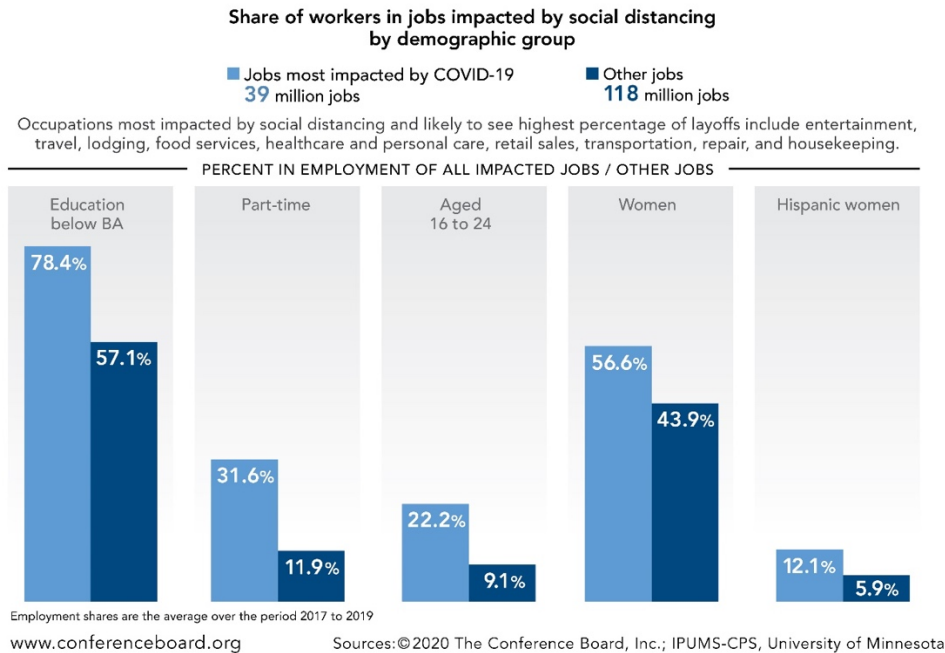
Federal Reserve Board of Governors Chairman Jerome Powell spoke (remotely) at a Peterson Institute for International Economics event on Wednesday, addressing the impact of the coronavirus on the economy. Chairman Powell highlighted that the fiscal response to date from Congress, approximately

\$2.9 trillion about 14 percent of GDP. He emphasized that the Fed has taken extraordinary action and that several of its tools will go back in the toolbox after the current crisis ends, for example, the Fed authority to extend credit directly to private nonfinancial businesses and state and local governments which exists only in "unusual and exigent circumstances" and with the consent of the Secretary of the Treasury.

But Powell underscored that it remains vigilant and prepared to do more should developments require. He also stressed that the Fed's power does not include spending and taxing, and that the Fed's ability to provide credit can be a bridge past the crisis but might leave some enterprises non-viable. In that vein, he cited research indicating the enduring costs of sharp economic downturn, including the losses of worker skills and the destructions of otherwise viable businesses. Therefore, he asked the nation's fiscal policymakers to remain prepared as well, stating, "Additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery. "

Chairman Powell also highlighted recent research by the Fed staff that shows the extent to which the costs of the economic shutdown to fight COVID-19 have been concentrated on the least-affluent part of society. "Since the pandemic arrived in force just two months ago, more than 20 million people have lost their jobs. A Fed survey being released tomorrow reflects findings similar to many others: Among people who were working in February, almost 40 percent of those in households making less than \$40,000 a year had lost a job in March." Two charts from The Conference Board's economic researchers illustrate this sad result:





Job losses are heavily concentrated in industries that employ primarily moderately compensated workers without technical skills, and as a result people from vulnerable demographic groups have been hit the hardest.

4. VACCINE UPDATES_PRESIDENT TO NAME VACCINE CZAR-FAUCI TESTIFIES

President Donald Trump is set to name a former pharmaceutical executive to lead his administration's effort to produce and distribute a coronavirus vaccine by the end of the year. Moncef Slaoui, a former GlaxoSmithKline executive, will lead "Operation Warp Speed," Trump's push to accelerate the vaccine development process for Covid-19, according to an administration official. Slaoui will be assisted by Army Gen. Gustave Perna, the commander of United States Army Materiel Command.

Anthony S. Fauci, Director of the National Institute of Allergy and Infectious Diseases, testified before the Senate Committee on Health, Education, Labor and Pensions on Tuesday. Also testifying was Robert R. Redfield, the Director of the Centers for Disease Control and Prevention. In the course of the hearing, Dr. Fauci expressed concern that the coronavirus remains in circulation in society, and that it could trigger a new outbreak, particularly next fall at the opening of the next school year. At that time, the normal influenza season would make a new outbreak highly dangerous. Dr. Fauci also warned of the limits of our knowledge of the potential impact of the virus upon children. (In the education space, the California State University system, the nation's largest, announced that it will hold most of its fall classes remotely, and therefore will not fully reopen before the spring term in 2021.)

Dr. Fauci said that it is most unlikely that either a vaccine or a therapeutic for Covid-19 will be available by the fall school term. However, he did express confidence that an effective vaccine will ultimately be developed. Fauci referenced "at least eight candidate covid-19 vaccines in clinical development." The

[Washington Post](#) reported modest optimism on the part of physicians that combinations of blood plasma of Covid-19 survivors, immune-suppressive drugs, anticoagulants and antiviral drugs like remdesivir can give some relief from the virus. Meanwhile, Rick Bright, who directed the Biomedical Advanced Research and Development Authority until his removal last month, urged against rushing the process to develop a vaccine during his testimony before House Energy and Commerce Subcommittee on Health.

Controversy swirled in France after the French pharmaceutical company Sanofi's CEO said the U.S. was first in line to receive any coronavirus vaccine it develops because the U.S. had funded the company's research.

5. TRADE AND COVID 19: ROBERT LIGHTHIZER WRITES

Robert E. Lighthizer, the US Trade Representative, wrote an opinion column in the *New York Times* on Tuesday pointing out the downsides of offshoring and utilization of global supply chains in light of the current pandemic. He said in the column that firms attempted to reduce labor costs, avoid labor and environmental regulation and increase profits by either manufacturing or buying goods overseas, but that in doing so, they incurred substantial risks which have now materialized in the COVID-19 pandemic as higher costs. Lighthizer declared that "the era of reflexive offshoring is over." Some will take his message as boding ill for the ongoing US-China trade negotiations and US-China relations overall, which was amplified with President Trump's remarks Thursday on Fox news that he did not want to talk to President Xi.

6. UPDATE ON US REOPENING

New cases and testing

While nearly all states are allowing for some additional level of business activity, a [Reuters](#) analysis found that only 14 states met the criteria for re-opening laid out in the Federal guidelines. This is partially driven by the fact that, although new COVID-19 cases are down week-over-week by roughly 10 percent nationally—a sharper decline in new cases than in previous weeks—roughly two in five states saw an *increase* in new cases reported over the past week. Among states experiencing a week-over-week decline, only twelve have experienced at least two consecutive weeks of decline.

It is difficult to disentangle new case reporting trends from changes in testing levels (where more widespread testing would be expected to increase the number of cases identified while providing more accurate data on week to week changes). According to [data](#) from The COVID Tracking Project, the US achieved a seven day average of over 300,000 tests per day for the first time this week. However, there have been [concerns](#) that some states may now be reporting antibody tests in their totals, making comparisons to past testing numbers more difficult and current state testing numbers less useful.

Further reopenings were planned for Friday, including in Iowa and parts of New York, Virginia and Oregon.

CDC Issues Guidelines

The Centers for Disease Control and Prevention made public Thursday a series of guidelines—called “Decision Tree”—for workplaces, bars, restaurants, mass transit, child-care centers, summer camps and schools. The six documents provide step-by-step guidance advising employers on reopening. The checklists include: [Restaurants and bars](#), [Workplaces](#), [Child care](#), [Schools](#), [Youth programs and camps](#), [Mass transit](#).

Reopening news

In Wisconsin, a high profile state supreme court [decision](#) lifted the governor’s stay-at-home order as unlawful under relevant state laws, allowing many businesses to re-open immediately in some parts of the state though local restrictions remain in place. So far Wisconsin’s high court is the only one to strike down the governor’s orders, whereas courts in Kansas, Michigan and Pennsylvania have sided with the governors’ stay-at-home orders.

In New York, Governor Cuomo extended New York state’s stay-at-home order unless the state’s ten regions meet the state’s 7 criteria based on hospitalizations for phased reopening, including low levels or steady declines in net hospitalizations or deaths, hospital capacity usage, and having certain minimal levels of per capita testing and tracing capacity in place. The benchmark limits a region to two new Covid-19 hospitalizations per day for every 100,000 residents. New York City, Long Island, the Hudson Valley and Western New York had rates that were too high. Although NYC meets most of the criteria for the first phase of re-opening, its hospitalization rate has hovered just above the threshold level. Governor Cuomo has said he expects a “true” reopening of NYC to be at least a [“few months away.”](#)

In Connecticut, Gov. Ned Lamont set a goal to begin lifting some restrictions on business by May 20, with criteria including adequate health-care capacity, a sufficient supply of personal protective equipment and the protection of high-risk groups. In New Jersey, Governor Murphy has not set a timeline for reopening, while Governor Newsom in California, said that counties can start to do a broader reopening if they meet benchmarks on testing, tracing and plans to protect vulnerable communities.

The impact of reopening policies on caseloads and economic activity

For states that have begun re-opening more aggressively, the lag in virus symptoms, testing, and identification mean that we would not expect to be able to identify policy-driven changes in caseloads for some time after re-opening took effect. Additionally, other factors potentially affecting infection rates (including weather, non-mandated public health behaviors, and luck) may make it difficult to identify a policy effect unless it is large. However, many of the states that have been prominent in broadcasting their re-opening—including Texas and Alabama—have seen increases in new cases week over week that cannot be directly attributable to recent changes in policy.

Available evidence suggests that policy changes allowing more business reopening are unlikely to quickly drive sharp changes in consumer behavior and business activity among states. Just as [economic activity](#) and [movement](#) typically declined prior to restrictive state policy changes, re-opening more quickly may not greatly shift consumer behavior if concerns about personal health risks remain strong. Consumer spending [patterns](#) in the US showed a sharp decline in the second half of March, and recovery between mid- and late-April in most states is hard to attribute to differences in state policies. Georgia, which began re-opening businesses on April 24, did not see a distinctly different pattern—at least in the one week for which we have data.

The speed and extent to which the US is re-opening is also not clear. A non-representative tracking [study](#) that draws on small- and medium-size employer entries in scheduling software provides one potential estimate of the scale of re-opening. It found that the share of small and medium firms that were previously operating in February but remained completely shut down (no employee hours) dropped from 45 to 40 percent between mid-April and early May. Across all firms using the software, the share of hours scheduled relative to February recovered from down 60 percent in mid-April to down 35 percent in early May.

Reopening and technology

Most public health experts believe tracking and tracing capacity will be an important part of efforts to re-open the economy safely, by identifying potential outbreaks early and preventing untracked community spread in areas without large outbreaks. Many states are hiring personnel to help with that task but also are [hoping](#) for a quick rollout of Apple and Google's collaboration on a Bluetooth-based tracing program for iPhones and Androids to assist that effort.

In the interim, North and South Dakota have started to use a self-developed app that uses [GPS](#) to create a diary of users' locations. [Utah](#) has also started using a different app for tracking purposes). Researchers at MIT are also working on Bluetooth-based tracing technology. However, surveys [suggest](#) that as many as three in five Americans may be unwilling or unable to use an Apple/Google app, reducing the potential effectiveness of a technology-based strategy unless and until attitudes shift.

While [Twitter](#) announced this week that it would extend work-from-home policies indefinitely, [Salesforce](#) confirmed that it plans to return to its offices on June 1 and has been laying out what it sees as best practices for companies to follow. There are also early signs of a wave of technology-related products for returning to work, as businesses move to capitalize on solving re-opening challenges. For instance, earlier in May, Salesforce [announced](#) that it would begin selling a new product that would host "technology solutions" and resources to help businesses "reopen safely, re-skill employees and respond efficiently" to COVID-19 challenges. CLEAR, a biometric ID company, has also [announced](#) that it will begin selling an app that works as a verified ID linked to personal health data to allow businesses to screen employees for COVID-19 as they return to work.

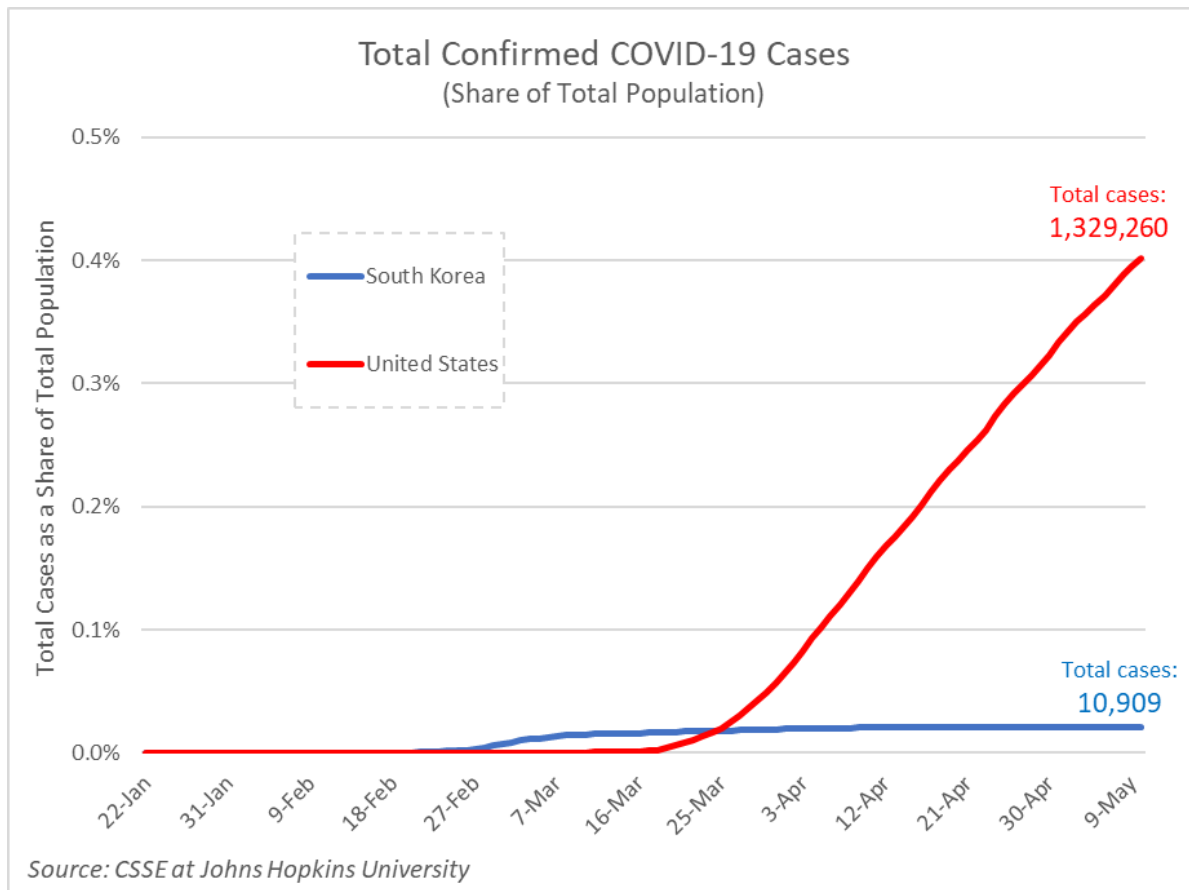
7. REOPENING: SPOTLIGHT ON SOUTH KOREA

South Korea and the United States confirmed their first cases of COVID-19 within a day of each other. However, the two countries differed in their approaches to tackling the pandemic. To date, South Korea has 265 fatalities. According to experts, South Korea established one of the world's most thorough protective measures by enforcing a strict lockdown, carrying out mass testing and pursuing aggressive contact tracing.

Taking advantage of the country's key post-MERS reform (which allowed the government to give swift approval to testing systems in an emergency), Korea Centers for Disease Control and Prevention authorized the manufacture of tests, which were quickly developed according to World Health Organization (WHO) templates. By the end of February, South Korea launched public "phone booths" and "drive-through" testing centers, where people were tested for free while still sitting in their cars,

with test results being made available between a few hours and three days. South Korea's large-scale testing proved crucial to mapping where the virus was, helping to direct public health efforts. The country's early response proved vital in slowing the spread of the infection. The slow pace of testing in the U.S., on the other hand, hindered the ability to slow its spread, resulting in widespread community transmission. As Senator Mitt Romney (R-UT) pointed out in the Senate hearing this week, by March 6, the U.S. had completed just 2,000 tests, whereas South Korea had conducted more than 140,000 tests.

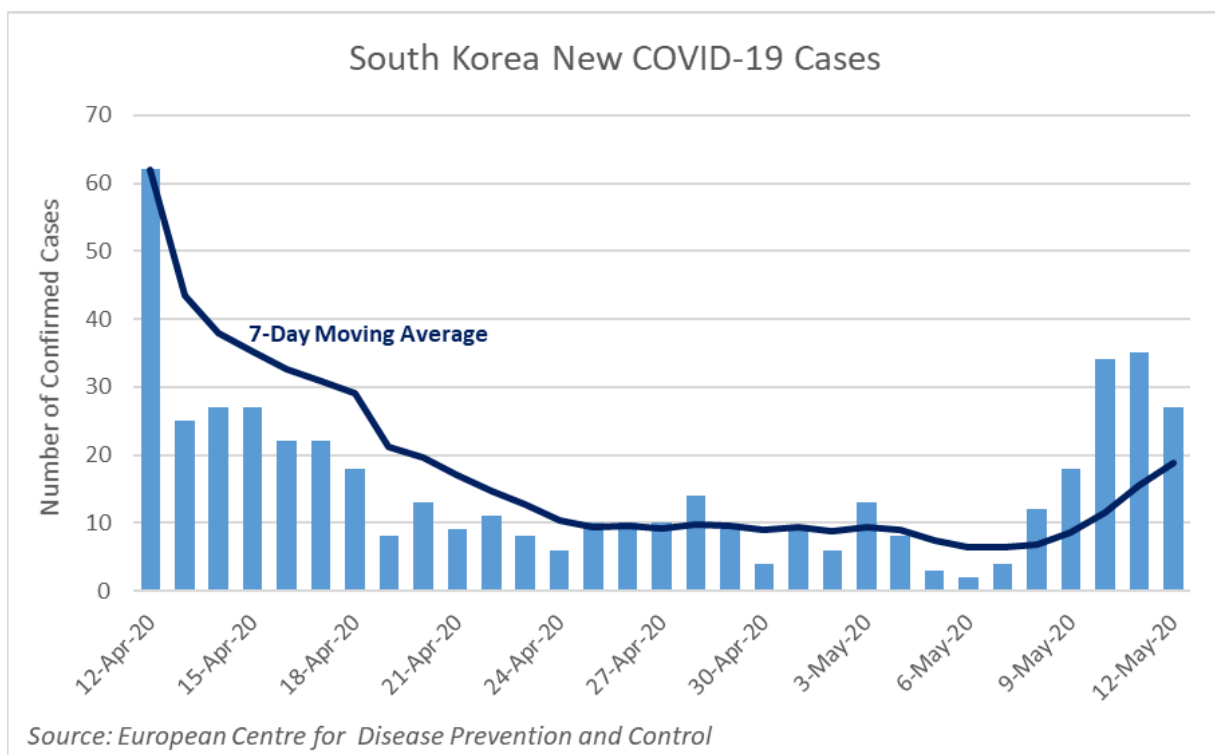
According to the director general of the International Vaccine Institute in Seoul, South Korea's containment of the virus was through "decisive and transparent leadership based on data, not emotion... and compliance with advisories for social distancing and hygiene, like avoiding bars, churches, gyms and hagwon cram [private tutoring] schools." He also stated that, "voluntary cooperation by an informed populace has been a notable feature of the response."



With the slowdown in new coronavirus infections, South Korea has gradually begun to move safely back toward normal. On May 6, the South Korean government had begun to relax the strict social distancing rules that were in place since March 22. The easing of the imposed measures was done under a set of guidelines referred to as the "[social-prevention measures](#)." The guidelines advised those who are sick and/or COVID-19 symptomatic to stay at home, and told people to continue to maintain a distance of six feet from others, among other strictures. The guidelines also specified that South Koreans aged 65 and above, as well as those in vulnerable and high-risk groups, should continue to stay at home and avoid

enclosed and crowded spaces. Under the newly relaxed policy, bars, clubs and restaurants had started to reopen by the end of April; schools, museums, libraries, stadiums, etc. were expected to reopen in the near future. Schools were advised to wipe desks and frequently open windows, and students were asked to wear masks and maintain adequate distancing.

However, the country has now postponed plans to reopen schools, and has ordered Seoul's nightclubs, bars, ect. to close again after a “cluster” of new COVID-19 cases appeared in the city. Note that in proportion the increase in cases appears large, but in absolute numbers it could be just one or two episodes of entertainment-venue exposures. South Korea’s Centers for Disease Control and Prevention says more than 35,000 people have been tested following an outbreak linked to bars and clubs in Seoul’s Itaewon neighborhood. The country, which largely contained a major outbreak earlier in the year, reported 29 new cases Thursday, 21 connected to the Itaewon cluster, according to Yonhap News Agency.



According to [Son Young-rae](#) (Ministry of Health and Welfare), government officials, health workers and much of the public know that “a second wave is inevitable,” and that until there is a vaccine, relaxing restrictions will lead to more infections, and possibly even more deaths. It was further added that South Korea was “running a constant monitoring and screening system throughout society” so as to slow the spread of the disease and keep the size of the contingency down to “small, sporadic outbreaks that come and go,” so that cases could be handled without the need for mass lockdowns. Further, [President Moon Jae-in](#) warned that “It will be a long time before the COVID-19 outbreak has ended completely. We should also brace for the pandemic's second wave, which many experts are predicting,” emphasizing that South Koreans should be prepared for a “prolonged war” against the COVID-19 virus.

FOLLOW-UP: AN UPDATE ON GERMANY

As a follow up to our earlier Spotlight Germany, Germany continues to steadily roll out [reopening](#) measures. At a recent press conference, [Chancellor Angela Merkel](#) confirmed that limits on social contact would remain in place until June 5 and that people must still maintain the recommended distance from one another and cover their mouths and noses in public. Schools are set to gradually reopen and the Bundesliga, Germany's top football (soccer) league, is ready to restart with certain quarantine conditions in place. The Chancellor also added that shops could reopen, but with additional hygiene measures, saying that, "the first phase of the pandemic is behind us but we are still at the beginning and it will be with us for a long time." In the first week of May, the Robert Koch Institute (RKI), Germany's disease control agency, stated that the country was capable of carrying out 964,000 coronavirus tests per week, and that the coronavirus reproduction rate was [estimated](#) to have fallen to 0.65. However, it was subsequently reported that the reproduction number had increased to above 1, meaning that one infected person is on average infecting more than one other person — which is the necessary condition for an epidemic. The federal and state governments in the country are said to have agreed on an "emergency brake" — by reintroducing lockdown measures in case the infections rise to 50 new cases per 100,000 people. Ms. Merkel announced that Germany could "afford a bit of courage," although adding that the country would "have to watch that this thing does not slip out of our hands."

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