CED Public Policy Watch
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1. INFLATION CONTINUES TO ACCELERATE

The Consumer Price Index (CPI) for February showed continuing rapid price increases. Once again, much of the impetus for the measured inflation came from the sometimes volatile energy and food categories, but those increases have been steady and continuous, rather than variable, and the increases in other categories were above the Federal Reserve's target ("about 2 percent") as well. The month-to-month headline (all items) index increased by 0.8 percent, which for those looking for relief was a big disappointment; it was higher than 10 of the last 12 months. The index excluding food and energy increased by 0.5 percent. This was down slightly from the 0.6 percent for January, but it remains far above the annualized Fed target. Food prices increased by 1.0 percent; energy prices broadly increased by 3.5 percent, with energy commodities (fuel itself) by a roaring 6.7 percent. Because the Russian invasion of Ukraine did not occur until February 24, the CPI increases probably reflect underlying price momentum and anticipation of the invasion, rather than the disruption from the invasion itself and the world reaction to it.

The annualized inflation rates over the preceding 12 months have gotten most of the attention, surely in part because they are more comprehensible to the public. The headline rate of increase was 7.9 percent, the highest since January 1982. The index less food and energy grew by 6.4 percent, the highest since August 1982.

Clearly, special factors—the pandemic, with its impact on supply chains and consumption patterns; and the invasion, with its immediate impact on energy prices—played a dominant role in the onset of this inflation. (Along those lines, the Center for Inflation Research at the Federal Reserve Bank of Cleveland just released its "Median CPI," which suggests that inflation may be less rapid than more-common CPI measures would indicate.) The remaining questions are whether those special factors will fade anytime soon; and whether inflation will have built itself into expectations by the time they do. Stay tuned…

2. NEW UNEMPLOYMENT INSURANCE CLAIMS RISE MODESTLY

The number of new claims for unemployment insurance in the week ending March 5 rose to 227,000, an increase of 11,000 from the previous week (which had been revised up by 1,000). The 227,000 level is consistent with those of the periods of economic expansion prior to the onset of the pandemic, suggesting that the small increase is the kind of sideways statistical fluctuation that occurs every month in times of growth. The number of continuing claims was up slightly, but its four-week moving average was down. Economists will surely look closely at next week's (and subsequent) numbers for signs of reaction to the Russian invasion, but there is no obvious adverse movement thus far.

3. OMNIBUS BUDGET BILL – FUNDING THROUGH END OF FISCAL YEAR

With a 68-31 Senate vote Thursday night, Congress has now approved an omnibus budget bill, H.R. 2471, the "Funding for the People Act," which will now go to President Biden for signature. The bill fully funds the Federal Government through the end of the current fiscal year on September 30, avoiding any additional continuing resolutions and the possibility of government shutdowns between now and then.

The bill contains $1.5 trillion in discretionary spending and – significantly – includes negotiated agreements for all 12 appropriations bills. By the standards of today's Washington, this is an achievement over the practice of all-year continuing resolutions covering those appropriations bills for which Congress is not able to reach agreement. The bill includes $730 billion in non-defense (a 6.7% increase) and $782 billion (a 5.6% increase) in defense spending.

Notable items in domestic discretionary spending include higher levels for rural broadband deployment and the FDA, a strong $363.1 million increase for the US Patent and Trademark Office, a $568.7 million increase for the Cybersecurity and Infrastructure Security Agency, $412 million additional funding for the Labor Department's Employment and Training Administration, $1 billion for a new Advanced Research Projects Agency – Health at HHS modeled on the Defense Department's DARPA, significant new funding for the CDC (including for public health infrastructure and data surveillance), higher funds for education grants to states, additional funding for the IRS to address its backlog of tax returns, and $16.2 billion more for the Transportation Department than in FY 2021 to "fully implement" the provisions of the infrastructure bill enacted in November.

Additional money the Administration requested to address the crisis in Ukraine is in the bill – at a higher level, $13.6 billion, than the Administration had originally requested. This funding includes support for refugees, over $3 billion for European Command mission support, $3.5 billion "to replenish US stocks of equipment sent to Ukraine through drawdown," Economic Support Fund assistance to Ukraine and possibly to neighboring countries, and $2.65 billion in international disaster assistance funding to respond to the immediate humanitarian crisis in Ukraine and the region. The House package does not include a proposal from Senator Ron Wyden (D-OR) to end permanent normal trade relations with Russia, apparently dropped at the request of the Administration.

Why this apparently sudden rush of comity? As the Washington *Post* noted, "[f]urther sweetening the deal, lawmakers for the first time in more than a decade could request earmarks for their states and districts, directing money to local infrastructure and other pet projects. In the House, for example, Democrats and Republicans alike secured roughly $4.2 billion in community project funding, according to aides." Earmarks provided reasons to vote for the bill rather than object, easing bipartisan support in a sharply divided House. However, even after enactment of this bill, Congress must now begin work on the appropriations bills for Fiscal Year 2023, which will provide plenty of opportunity for partisan rancor.

4. COVID SUPPLEMENTAL FUNDING

HHS' announcement that it has run out of coronavirus funding, including for vaccines and testing, put pressure on Congress to include supplemental funding related to COVID in the omnibus appropriations bill. While the Administration asked for $22.5 billion in COVID-related spending, Republicans would agree only to a lower amount, perhaps $15 billion; many Republicans wanted nothing at all, pending an accounting of all pandemic-related aid (far broader than funds spent on COVID supplies narrowly defined). However, after some Democratic Members complained about reduced allocations to their states because of a "clawback" of unspent COVID-related program funds used as a cost offset, this additional COVID spending – and the offset – were dropped from the bill entirely. In the end, with both Republicans and Democrats opposing the proposed spending formula, the bill had to proceed without it, leaving open questions about how HHS will pay for additional supplies to fight the pandemic.

5. BIDEN ORDER ON CRYPTOCURRENCY

On Wednesday, President Biden signed the long-awaited Executive Order providing for regulatory review of cryptocurrency ("Ensuring Responsible Development of Digital Assets"). The Order is ambitious, covering government policies and the potential effects of digital assets on consumers, investors, data security, financial stability, national security, equity, and climate change. The Order also proposed a policy which could lead to the development of a Central Bank Digital Currency (CBDC) for the United States ("a form of digital money or monetary value, denominated in the national unit of account, that is a direct liability of the central bank"), not least to protect the role of the dollar as a global reserve currency. (The Federal Reserve's January discussion paper on the subject remains open for public comments.)

The heart of the Order is a series of instructions to prepare reports due this Fall on various aspects of cryptocurrency regulation, coordinated by the White House with involvement from many government agencies, including the Federal Reserve. These reports focus on a wide variety of issues: ensuring the primacy of the US dollar, access to financial services, and the relationship between use of blockchain technologies and efforts to combat climate change, among other issues.

6. FURTHER SANCTIONS ON RUSSIA (AND BELARUS)

This week the Administration continued finalizing the sanctions program against Russia announced over the past several weeks. The biggest development was an Executive Order banning importation of Russian crude oil and other hydrocarbon products. Beyond this, on Wednesday the Commerce Department finalized its rule on sanctions targeting Russian oil refineries and its rule imposing sanctions on Belarus for products that have military end uses; on Thursday, Commerce added 91 new names to the "Entity List" of persons and companies that "have been involved in, contributed to, or otherwise supported the Russian security services, military and defense sectors, and military and/or defense research and development efforts." US companies may not export to them without specific licenses from Commerce.

7. STRENGTHENING "BUY AMERICAN" RULES

The Defense Department, General Services Administration, and NASA issued a joint rule implementing a provision of the recently-enacted infrastructure bill that included a "sense of Congress" that the Federal Acquisition Regulation should "increase the domestic content requirements for domestic end products and domestic construction material to 75 percent." Under the rule, domestic content will increase to 60 percent this year, then to 65 in calendar year 2024 and 75 percent in calendar year 2029. Suppliers on multi-year contracts will be required to comply with domestic content rules in place in the years of each delivery under the contract.

8. EPA PROPOSED RULE ON SMOG AND HEAVY VEHICLES

On Monday, EPA proposed a new rule containing aggressive steps to reduce tailpipe pollution from heavy-duty vehicles (trucks, buses, and generally other vehicles above 8,501 pounds), starting in model year 2027 – the first update to these standards in two decades. EPA's focus is on reducing nitrogen oxides (NOx), which form smog. Within four years, NOx emissions could decline by up to 60 percent in 2045. EPA has proposed two basic options for new standards; under the more strict Option 1, EPA's new standards would be similar to California's proposals – with "engine emissions standards 90% lower than today's" for heavy-duty vehicles. The proposed rule remains open for comment for 45 days, and EPA will hold a virtual oral hearing as well. EPA expects to finalize the rule "before the end of the year." Depending on public comments, we expect that one of the two principal options in the proposed rule will likely be adopted.

In the rule, EPA is also proposing updated greenhouse gas (GHG) emissions standards, including carbon dioxide, also beginning in model year 2027, with a clear focus on moving away from fossil fuel use; EPA's proposal "would set updated GHG emissions standards for subsectors where electrification is advancing at a more rapid pace. These sectors include school buses, transit buses, commercial delivery trucks, and short-haul tractors. In a separate action, EPA will be setting new GHG emissions standards for heavy-duty vehicles as soon as model year 2030." Sectors which already have higher rates of electric vehicles would presumably face more stringent GHG rules, to push conversion to electric vehicles even further. These rules had been signaled last August as part of EPA's "Clean Trucks Plan."

There is a significant health equity component to the rule. EPA Administrator Michael Regan noted that "Seventy-two million people are estimated to live near truck freight routes in America, and they are more likely to be people of color and those with lower incomes. These overburdened communities are directly exposed to pollution that causes respiratory and cardiovascular problems, among other serious and costly health effects." Because NOx contributes to asthma, EPA estimates that the rule would lead to up to 18,000 fewer cases of asthma onset in children and up to 2,100 fewer premature deaths.

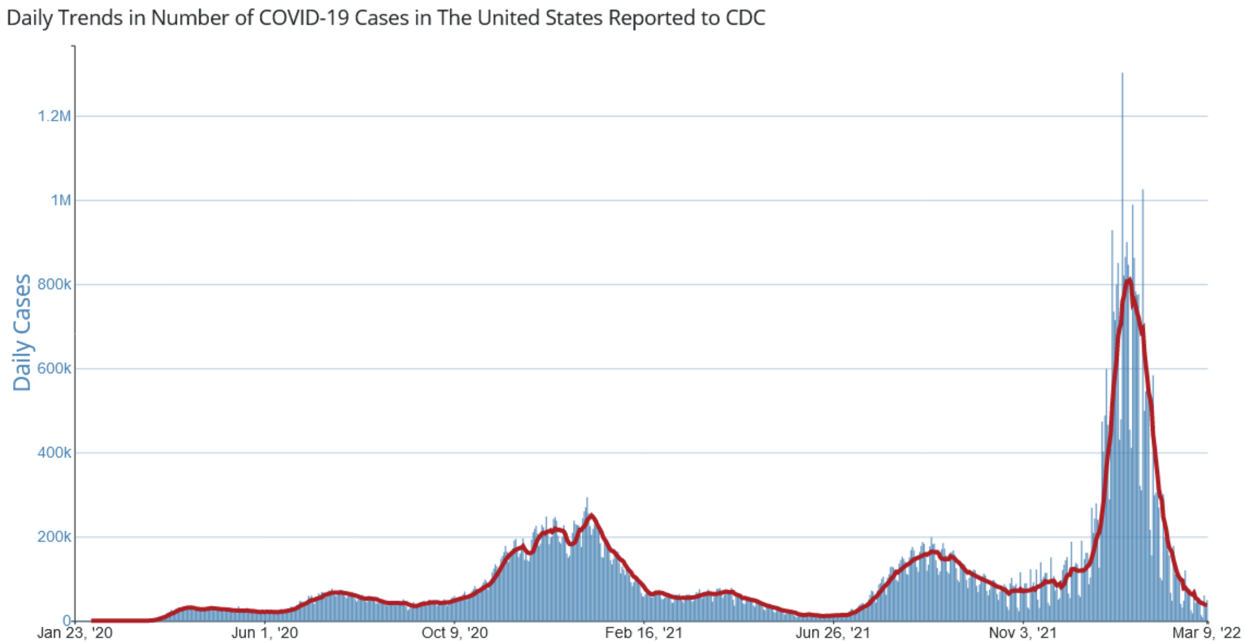
9. POSTAL SERVICE REFORM ACT PASSES CONGRESS

The Senate approved, on a bipartisan 79-19 vote, the Postal Service Reform Act (H.R. 3076), which will help the agency save $50 billion over the next decade by ending the pre-funding of retirement benefits which artificially inflated USPS' losses (no other government agency faced this requirement). A new Postal Service Health Benefits Program within the Federal Employees' Health Benefits Program will cover most workers and annuitants, but new USPS retirees will be required to enroll in Medicare; accordingly, the Congressional Budget Office was able to score the legislation as saving the government money, easing passage of the bill.

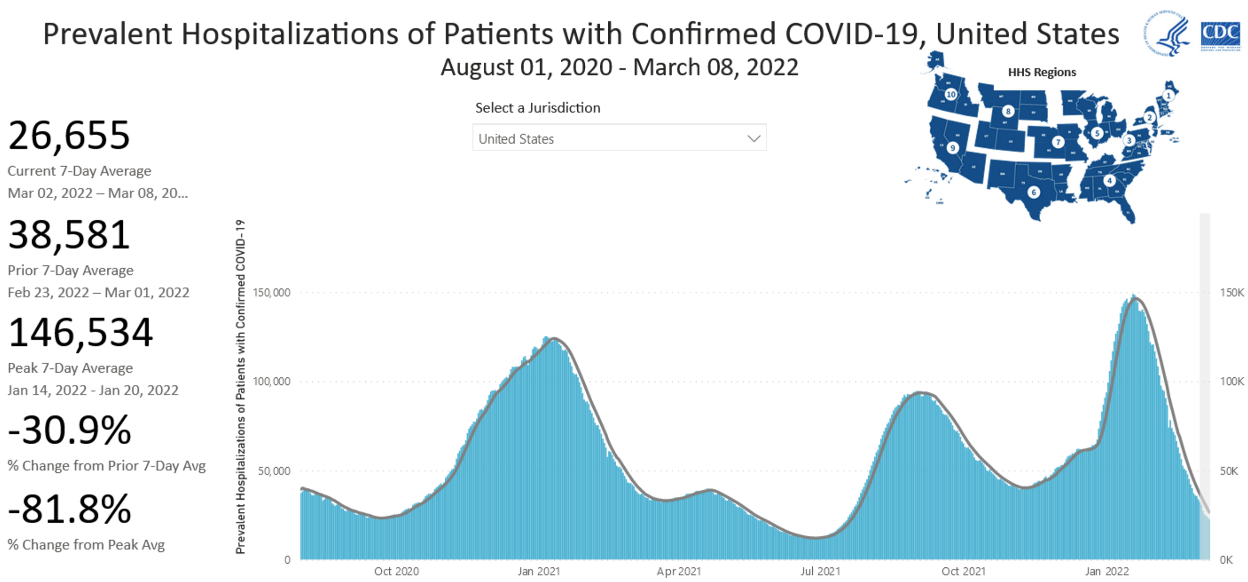
Nothing in the bill changes Postmaster General DeJoy's 10-year business plan for the Postal Service nor of itself speeds delivery. But the financial reforms will reduce pressure to eliminate six-day delivery; and the bill explicitly contains a mandate to continue it. Nor does it change USPS' recent contract to proceed with gas-powered delivery vehicles or address expansion of the current postal banking pilot program, which has had little success in attracting unbanked customers (who may pay for gift cards only with business or payroll checks) at the four post offices where the pilot is being conducted. It does, however, permit USPS to offer certain "non-postal" services for state and local governments. Because voting is regulated by state law, the bill does not address efforts to promote voting by mail. However, a more financially robust USPS should be able to handle higher volumes of ballots more quickly, even under the current plan that slows down mail. We expect President Biden will sign the bill into law shortly.

10. PANDEMIC NEWS

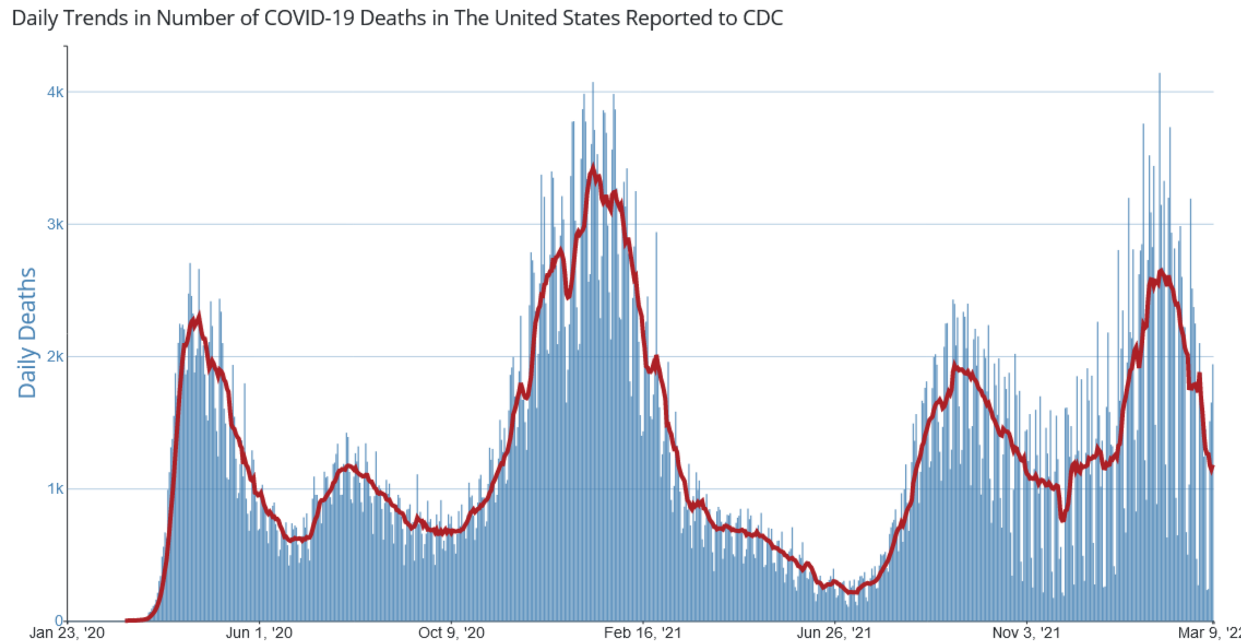
Coronavirus news this week – if you can find any in the press – is good, but a bit puzzling in some respects. The daily case count continues to decline. The seven-day moving average is now about 37,000, which is down more than one-quarter from a week ago. It is still more than triple where it was last June, when we all thought that we would celebrate a new kind of Independence Day, but after the 800,000 of the Omicron peak, it looks pretty good from here.



Hospitalizations, too, continue falling on a national basis.



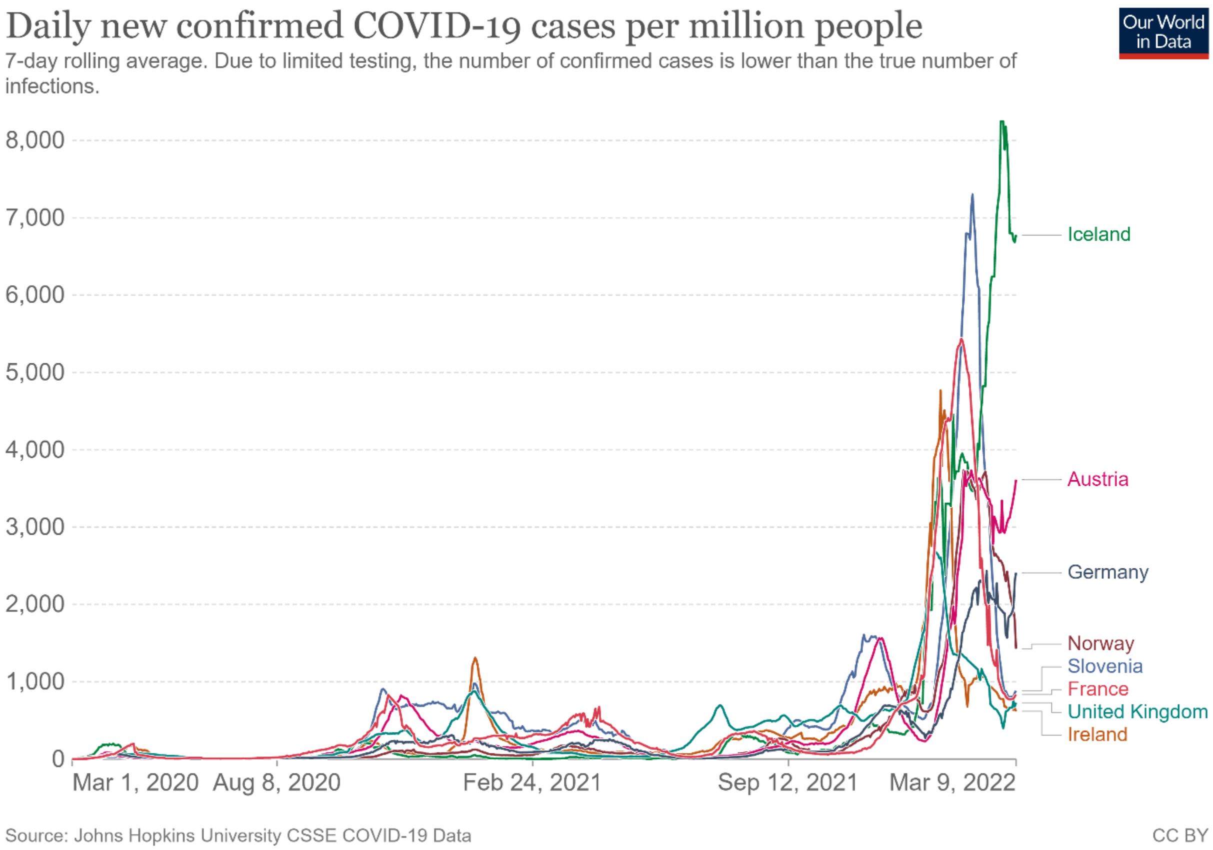
The puzzling part comes from what is happening to the daily death count. The last six days of data have leveled out at 1,100 to 1,200 deaths per day (not obvious in the chart below). We can hope that this is just a nervous tick in the data.



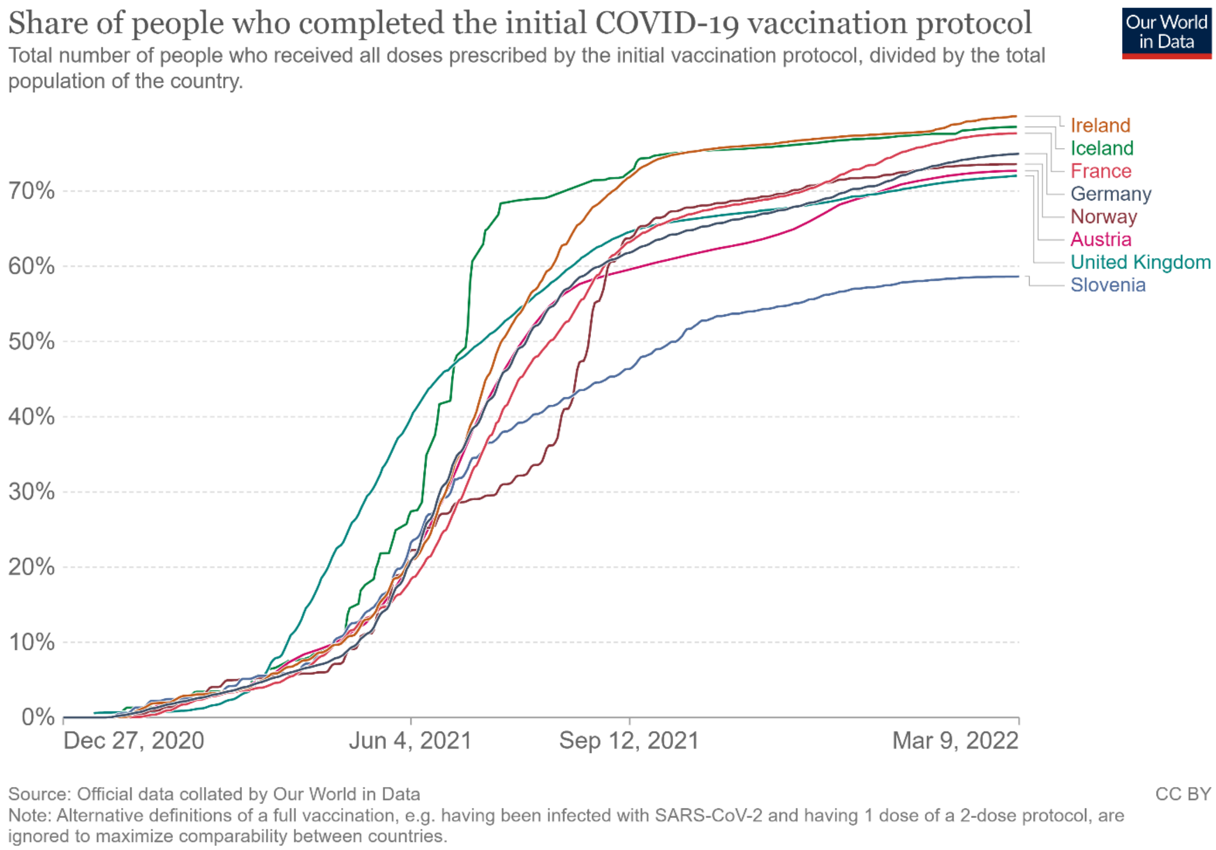
And we must hope that this is not some new trick being played by the BA.2 variant of Omicron. BA.2 continues to outcompete the other currently active variants, amid reports that it is proving no more virulent than the prior Omicron strains. If that remains true, then the cautious optimism that we see all around the world (see below) may prove justified – after so many dashed hopes before.

11. SPOTLIGHT ON REOPENING: FRANCE—GETTING AWAY WITH “*EMMERDER*”?

Last week, French Prime Minister Jean Castex anounced that rules requiring people to show a COVID-19 vaccine passport to access businesses will be lifted on March 14, approximately one month before the presidential election. This news comes less than two months after President Emmanuel Macron sparked controversy for using a slang term to say he wanted to make life difficult for the unvaccinated people of France. President Macron’s comments referred to parliamentary discussions over the vaccine passes. He used the French word “*emmerder*” in his interview with French newspaper Le Parisien, which can roughly be translated as “hassle” or “annoy,” or close to the English phrase “piss off.” Face masks will also no longer be needed indoors from March 14, with the exception of public transportation. Those who follow tennis will know that the lifting of mandatory COVID-19 vaccination opens the door for Novak Djokovic, unvaccinated Serbian tennis champion, to compete in this spring’s French Open tournament. Djokovic, who confirmed he had not received vaccination against the virus, was deported from Australia in January after immigration officials there ruled he was a danger to society because he could energize an anti-vaccination movement in the strict COVID-zero country.



France is not the only European country scaling back its COVID-19 restrictions. Austria recently made the decision to suspend its mandate for compulsory vaccination for all persons over age 18 just days before it was due to be enforced. Austria introduced the law on February 16, but authorities were not planning to check people's vaccination status until mid-March. Those who refused to get the shot would have faced fines up to 3,600 euros. The government now says it considers the law to be disproportionate to the threat posed by the Omicron variant. Last week, Wolfgang Mückstein stepped down from his role as Austrian health minister, saying that he is no longer able to "give 100 percent," said Mückstein at a press conference in Vienna. Mückstein was appointed health minister last April and said he and his family have received constant threats throughout the pandemic. Remaining restrictions in Austria, except for rules on masks in businesses and on public transport, are expected to be lifted in the next couple of weeks.



Iceland, Norway, Slovenia, and Ireland have lifted nearly all COVID-19-related travel restrictions; travelers do not need negative tests or proof of vaccination to enter. Greece, Portugal, Croatia, and Denmark have also relaxed vaccination requirements for tourists. Germany recently abolished its high-risk list, meaning tourists from any country can visit. Though the Council of the EU is trying to coordinate travel restrictions throughout the continent, its recommendations are non-binding to EU member states, resulting in a hodgepodge of travel rules across the Schengen zone.