

*CED Public Policy Watch*

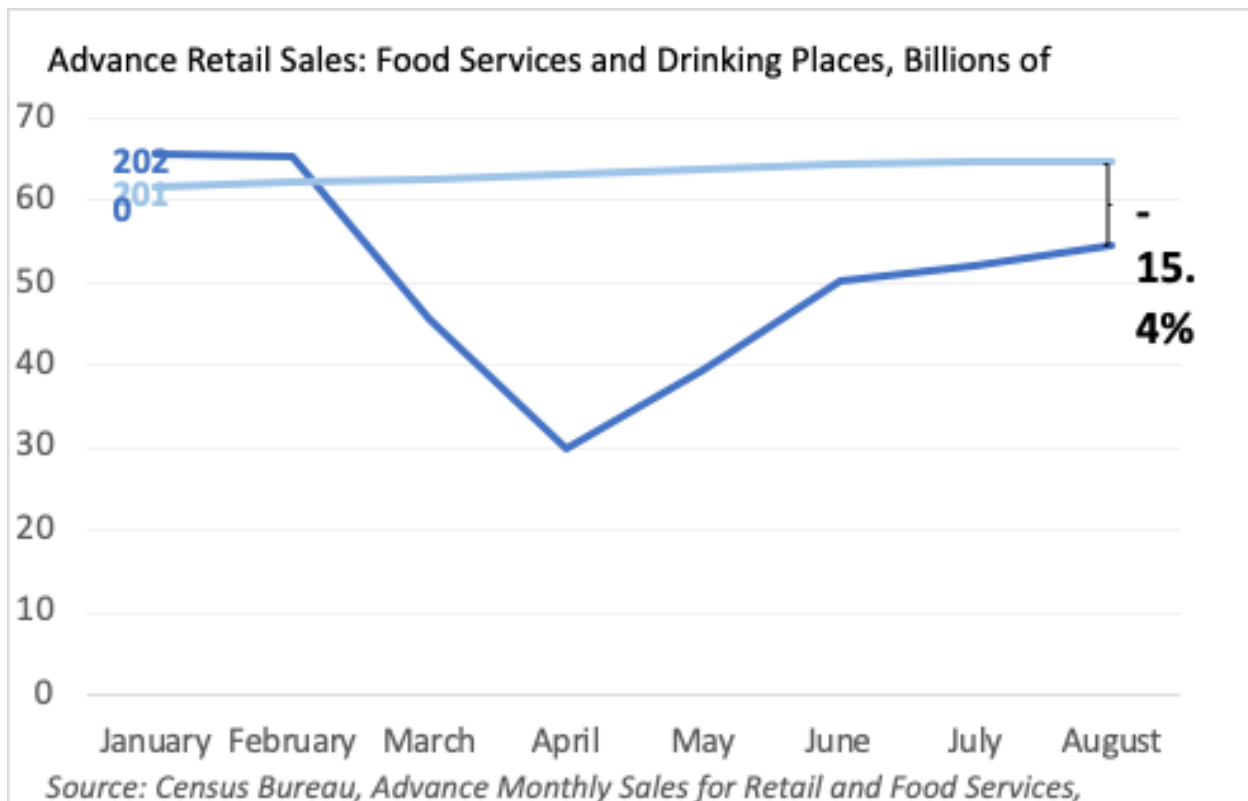
**9.18.2020**

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- 1. NUMBER OF THE WEEK: 15.4 PERCENT LOWER**



In August, with most small businesses having already exhausted their Paycheck Protection Program (PPP) forgivable loans from March’s CARES Act, sales at food services and drinking places remained 15.4 percent lower than a year prior (and 20.9 percent lower over the first 8 months of the year compared to the same period in 2019), according to new data from the Census Bureau. As Congress debates follow-on support for small businesses, many restaurants and bars—firms most likely still under public health restrictions or at risk for having them re-imposed—are clearly still hurting and are operating without much federal aid. Applications for PPP loans closed on August 8, leaving \$134 billion in unused lending authority. Both Republicans in the Senate and Democrats in the House have signaled support for additional, more-targeted aid to small businesses (and CED has advocated streamlined, easily forgivable loans to very small firms). However, stand-alone action seems unlikely, and dueling proposals for more-comprehensive relief appear at a standstill as the election looms. We could see more firms going out of business unless Congress provides targeted aid before going on recess in early October.

## 2. NEW JERSEY ADOPTS MILLIONAIRES TAX

Under pressure from the pandemic, which has both increased costs and reduced tax revenues, New Jersey leaders have agreed to adopt a “millionaires tax,” increasing the rate at the margin (that tax on the first dollars of income is not affected) on incomes above \$1 million from 8.97

percent to 10.75 percent, which would be coupled with an annual rebate of as much as \$500 for families earning less than \$150,000. New Jersey is the second-wealthiest state in the nation, and so the tax increase would on paper be highly productive. However, incomes at that high level tend to arise from property, rather than labor; the people who earn them tend therefore to be mobile and can relocate to other states with lower rates. (Florida, prominently, is among the states with no income tax at all.) Such high-income tax rates could also affect business location decisions. The decision highlights the tension in this pandemic economy, in which in-person, lower-wage workers have been hard-hit but asset values have been buoyed by stimulative credit policy, states and localities have been pressed to maintain essential services, and choices driven by these tradeoffs have been stark and painful.

### **3. AFTER PERIOD OF DECLINE, NEW COVID-19 CASES AND DEATHS IN THE US ARE RISING**

The seven-day average of new confirmed US COVID-19 cases increased over the past week for the first time since July, though overall numbers are lower than in July and August. The seven-day average number of deaths from COVID-19 has also increased to over 850 for the first time since early this month. More than six months into the pandemic, only Missouri, North Dakota, and Wisconsin are experiencing record numbers of new cases, but 18 states are currently experiencing an average of more than 15 new cases per 100,000 residents per week.

### **4. BIPARTISAN HOUSE GROUP TRIES TO ADVANCE COMPROMISE OFFER; WH SIGNALS SUPPORT FOR MORE AID THAN SENATE REPUBLICANS PROPOSED**

On Tuesday, the Problem-Solvers Caucus, an evenly divided bipartisan group of House members, announced an approximately \$1.5 trillion aid proposal (that would increase or decrease in size depending on economic conditions in early 2021) as a last push to spur a compromise on COVID-19 relief before Congress recesses until the election in November.

CED will host a webcast next week September 24

Key elements of the plan include:

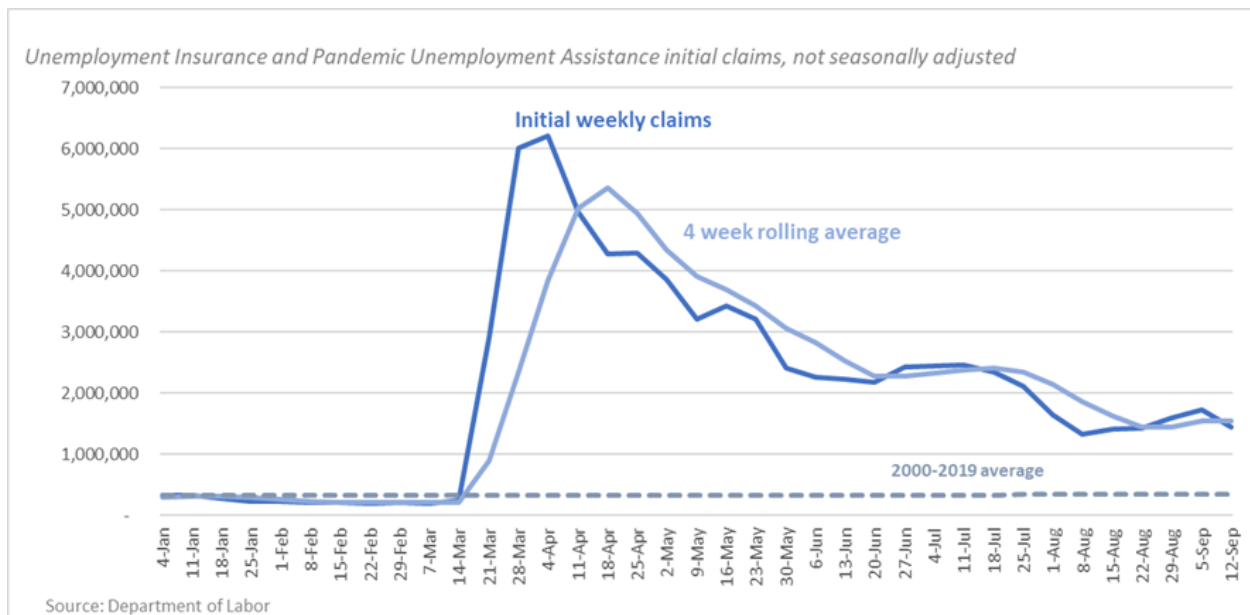
- **Extension of enhanced unemployment benefits** – Replacing a \$600 enhanced weekly benefit that expired in July would be an eight-week extension of enhanced weekly unemployment benefits at \$450 per person, followed by an *up to* \$600 weekly benefit through the end of January 2021 that would be capped at 100 percent of prior wages. If unemployment remains elevated in January, the unemployment benefits would be automatically renewed for an additional 3 months.

- House Democrats proposed an extension through January of \$600 per week; Senate Republicans proposed an extension through December at \$300 per week.
- **\$500 billion for state and local government funding.**
  - House Democrats proposed \$915 billion; Senate Republicans proposed no new funding.
- **A second round of Economic Impact Payments**, equal to the \$1200 per person, \$500 per dependent stimulus checks that were approved in the CARES Act, plus a third round in March 2021 if certain recovery milestones have not been reached.
  - House Democrats proposed a second round of payments with \$1200 for each dependent; Senate Republicans did not include stimulus checks in their proposal.
- **A second round of Paycheck Protection Program loans to small business.**
  - The Senate Republican proposal was similar; House Democrats had proposed small business relief through refundable payroll tax credits.
- **Liability protections.**
  - House Democrats did not include liability protections in their proposal; Senate Republicans proposed significantly more expansive liability protections.

Eight Democratic House Committee Chairs released a joint statement saying the compromise proposal was insufficient and didn't address critical priorities. Having passed relief proposals over the spring and summer that would have provided over \$3 trillion in aid, House Democratic leadership has signaled openness to a \$2.2 trillion deal. Senate Republicans recently released a proposal that would provide roughly \$700 billion in relief. On Wednesday President Trump tweeted that Senate Republicans should support a larger amount of stimulus and suggested that "something like" the \$1.5 trillion proposal would be a better level of aid. Senate Majority Whip John Thune commented, "If the number gets too high, anything that got passed in the Senate will be passed mostly with Democrat votes and a handful of Republicans so it's gonna have to stay within a realistic range if we want to maximize, optimize the number of Republican senators that will vote for it."

## 5. NEW UNEMPLOYMENT CLAIMS AND BENEFIT RECEIPT REMAIN HISTORICALLY ELEVATED

New weekly claims for unemployment insurance (UI) fell to below 800,000 for the first time since mid-March, but remain above the highest weekly level reached during the financial crisis. Weekly claims for Pandemic Unemployment Assistance (PUA) benefits also declined to roughly 659,000, as states continue to deal with challenges related to fraud and data reporting that may be inflating the number of Americans applying for and receiving unemployment assistance. Department of Labor data suggest that an average of 29 million Americans have been receiving unemployment assistance over the past four weeks, but actual receipt could be overstated (by five million or more according to one analysis).



The Trump Administration’s Lost Wages Assistance Program—which is transferring FEMA disaster relief funding to the states through an executive action unveiled in August to offer up to six weeks of an additional \$300 in unemployment assistance to qualifying recipients—is now paying benefits in 21 states. The other states are continuing to work toward paying benefits.

## 6. FEDERAL RESERVE CONTINUES SHIFT IN POLICY AND COMMUNICATIONS

The Federal Open Market Committee (FOMC) of the Federal Reserve concluded its September meeting on Wednesday by reinforcing its recent message of commitment of support to the weakened pandemic economy. In its statement and in the post-meeting remarks of Chairman Jerome H. Powell, the FOMC said clearly that it would wait until inflation rose to and beyond its 2 percent target, rather than merely until signs of economic recovery were evident, before raising interest rates. The FOMC articulated a symmetrical loss function around the inflation target; in other words, it is as dissatisfied with inflation that falls short of 2 percent as it would be with inflation that exceeds that rate. Furthermore, the FOMC construes the target as an average; there is a need for inflation to exceed the target for a time to counterbalance the current long period of inflation below that rate. The FOMC will not only hold its policy rate, the Federal Funds rate for interbank overnight lending, near zero, it will also continue purchases of longer-term government and mortgage-backed securities to reduce more directly longer-term rates in the financial markets.

The so-called “dot plot” of individual FOMC members’ expectations of the future path of interest rates and economic indicators showed expectations of near-zero rates and slow recovery of economic output all the way through 2023. Although these expectations rest on

individual members' own personal economic forecasts, and are certainly subject to change if actual developments differ from those forecasts, they provide a vivid image of the expectation of these policymakers that the economy will need monetary support for the foreseeable future.

## **7. NEW YORK CITY ANNOUNCES DELAYED, PHASED START TO SCHOOL**

Citing staffing shortages, Mayor de Blasio [announced](#) that NYC schools would be implementing a phased re-opening for in-person classes—beginning with preschool students on September 21, elementary schools a week later, and middle and high schools in early October. After an initial delay announced back in August, all students, including those students attending in-person, had been scheduled to start learning on the 21<sup>st</sup>. Students opting to learn remotely to start the year—about 40 percent of families—will still begin online classes on the 21<sup>st</sup>. New York City is continuing to try to add 4,500 additional teachers to accommodate both remote and in-person learning under public health restrictions. If schools re-open on the current schedule, New York will still be one of the first major cities to resume in-person public education.

## **8. ASTRAZENECA-OXFORD VACCINE TRIAL RESUMED IN UK; PAUSE CONTINUES IN US**

In a reminder of the complexity of pharmaceutical research and development, the pause in the Phase 3 trial of the AstraZeneca-Oxford COVID-19 vaccine (which we discussed last week) has been lifted in the United Kingdom, but [continues](#) in the United States. Confirmed details of the cause of the pause are hard to come by, which is part of the problem in resolving the interruption. It appears that one UK trial subject contracted transverse myelitis, an inflammation of the spinal cord, which can in the extreme cause paralysis. This occurrence of the disease could have been totally unrelated to the vaccine trial, but it could have been caused by a reaction of the patient to the virus contained in the vaccine. If the latter, that could threaten the viability of the vaccine; as we have noted before, a vaccine potentially taken by billions of people must have only limited adverse side effects. The US Food and Drug Administration (FDA) has been frustrated in responding to this episode by a lack of transparency, which has been justified by the UK authorities on the ground of patient privacy. Ideally, the FDA would have tissue samples from the affected patient and other trial participants, and information on the decision process related to the pause and the resumption of the trial. Very early statements by the Oxford researchers that they would achieve the first cleared vaccine have now come around to raise questions about the integrity of their process, to the potential detriment of the entire vaccine effort and its credibility.

## **9. CDC Director Projects 6-9 Months After A Vaccine for 'Regular Life' To Resume**

The director of the Centers for Disease Control and Prevention (CDC) [Robert Redfield told U.S. senators Wednesday](#) that once a vaccine is approved, it will probably take six to nine months for a vaccine to be “fully available to the American public, so we begin to take advantage of vaccine to get back to our regular life,” adding, “I think we are probably looking at late second quarter, third quarter 2021.”

## 10. GLOBAL SPOTLIGHT UPDATES

### **GATES Foundation Issues its 2020 Annual Goalkeeper Report—COVID-19 has stalled 20 years of progress**

The 2020 issue of the Bill and Melinda Gates Foundation’s Goalkeepers report is this week’s recommended read.

The report features new data showing the far-ranging impact of the Covid-19 pandemic, stopping 20 years of progress toward the UN Sustainable Development Goals with a major backsliding in the percentage of children around the world getting essential vaccinations, food insecurity on the rise, and a sharp increase in the number of people living in extreme poverty. The pandemic has had a disproportionate impact on women, racial and ethnic minority communities and people living in extreme poverty. In the United States, the pain caused by the pandemic has been inequitably distributed, with people in high-paying jobs actually saving money while people at the other end of the economic spectrum are having trouble paying rent and keeping food on the table. That disparity is evident around the world, Gates said. “Almost every axis of inequity — racial, type of job, size of house, quality of internet connection — on every one of those dimensions, those who are better off have had less of a problem during the pandemic.” Read STAT summary of the report [here](#). Read the [full report](#)

### **Israel**

Israel became one of the world’s first countries to institute a second [nationwide](#) lockdown. While the country had established strict measures to curb the spread of COVID-19 by imposing a mandatory quarantine for all foreign travelers in the beginning of March (even before the World Health Organization classified the novel coronavirus as a global pandemic), it currently has more than 40,000 active cases (from a population of about 9 million) and has been recording about 4000 new cases daily — both significant increases after substantial reductions in the Spring, and then earlier increases in the Summer. Hospitals in the country have complained of overcrowding, and public health authorities have warned of the risk to the stability of Israel’s healthcare system if the number of cases keeps rising. Prime Minister Benjamin Netanyahu announced a new three-week-long shutdown (based on recommendations by Israel’s Health Ministry) ahead of upcoming religious holidays, while also saying that the measure would “*exact a heavy price on us all,*” though adding that “*the economy is still in good shape.*”

## New Zealand

New Zealand, on 8 June, had declared itself free of new COVID-19 cases, after having enacted one of the strictest lockdowns in the world in late March (by going into an “Alert 4” lockdown, asking residents to stay home and keep movements within local areas). Restrictions had been eased, but the country had continued with tight border controls that included a ban on most international travel, mandatory quarantine for citizens returning from abroad, and a requirement of PPEs for all air/seaport workers. Still, after 102 days of no new locally acquired cases, the country reported a fresh outbreak of coronavirus cases on 11 August – four members of a family in the city of Auckland had tested positive for the virus. To contain the virus as quickly as possible, the government put Auckland under a lockdown and began testing anyone who had come into contact with those new cases, leading to the identification of 65 more cases connected to the original cluster.

New Zealand announced that it would lift remaining restrictions across the country (except in Auckland) on 21 September, but added that masks would be compulsory on all public transport. While the lockdowns contributed to New Zealand’s deepest recession in decades, Prime Minister Jacinda Arden stated that the country has been able to open up a lot more quickly when compared with others due to New Zealand’s swift and strong response in containing the virus, adding that she believes in the economy’s ability to rebound.

## United Kingdom

Like many countries in Europe, the United Kingdom has been recording the total number of daily cases at the highest level since May in recent days but has also increased its testing capacity. To avoid a second national lockdown due to the rising number of cases, Prime Minister Boris Johnson has said that *“the only way to be certain the country can enjoy the Christmas holidays is to be tough now,”* adding that he wants to boost testing to 10 million a day (even though the reopening of schools has created a backlog of more than 100,000 tests) and impose tougher measures to combat the spread of infections.

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