

The coronavirus pandemic continues to dominate the news cycle and policy environment and has altered life in almost every way. Amid the economic devastation, some states are beginning to open up, while others signal longer shut-downs. Congress passed an additional relief measure and the Federal Reserve works to shore up the economy. Tensions with China continue to rise as the administration and Congress consider retaliatory measures.

The Pandemic Economy

The United States lost 20.5 million jobs in April, according to [data released](#) by the Bureau of Labor Statistics (BLS), and millions more thus far in May as the COVID-19 pandemic crippled the economy. The April numbers shattered records. Between March's revised loss of 870,000 jobs, April's record-breaking numbers, and the May 8 report, over 30 million people have filed for unemployment in the last six weeks. The unemployment rate is currently 14.7 percent, compared to 4.4 percent in March. However devastating this economic data is, it is still not capturing all the people currently out of work, meaning the headline numbers [may understate the damage](#).

Beyond the skyrocketing employment numbers, in the first quarter U.S. GDP had the sharpest fall since 2008, shrinking by 4.8%. This is likely to be revised further downward. The second quarter is also stirring alarm with forecasters from the [Congressional Budget Office](#) (CBO) who are projecting contraction by as much as a 40% (annualized) for the April-June period. The CBO also projects that the federal budget deficit will reach 19% of GDP this year, up from 4.6% last year, and that the federal debt will be 101% of GDP by the end of the fiscal year.

A Staggered Reopening & Fiscal Strain for States, Localities

Governors across the country are slowly allowing their citizens to return to some semblance of normalcy after weeks of shutdowns to stop the spread of the coronavirus. However, the country's death toll and case-load continues to rise and public health experts have warned relaxing restrictions could cause a spike in cases. Some mayors are resisting directives from their governors to reopen, citing the ongoing public health threat and the potential for health systems to be overwhelmed by a resurgence of cases.

The [public finances of states](#) and local governments have also been adversely impacted due to falling tax revenue and increased spending on unemployment and medical obligations. Many states are required by their constitutions to balance their budget. The coronavirus pandemic will intensify challenges for state budget authorities due to increased costs for Medicaid, one of the most significant budget expenses for states, and volatile tax revenue, complicating policymakers' efforts to balance budgets. The primary source of funds, beyond tax revenue, is the issuance of bonds—thus far, credit rating agencies have not re-rated any states but bond issuance may be more complicated if the [credit-worthiness of states is revisited](#). At the local level, cities get most of their revenue by designing their own fee structures and tax regimes, therefore [cities will face very different situations](#) as the economic impact from coronavirus becomes clear. Cities and states did receive some funds in the CARES Act and additional federal relief for states is a point of [heated debate on Capitol Hill](#).

Some Action on Capitol Hill as Lawmakers Return

The United States Senate returned to Washington on May 4, stepping into a “[strange new era](#)” in the words of Senate Minority Leader Chuck Schumer—the House remains out of session. Business on Capitol Hill is usually a largely an in-person affair with lobbyists, constituents, and stakeholders interacting directly with staff and members of Congress in relatively cramped offices—that can no longer be the case with the continued threat of coronavirus and the risks posed to members of Congress and Senators, many of whom are elderly. The normally “clubby” atmosphere of the Capitol is gone.

Congress passed a [\\$484 billion pandemic relief package](#) in late-April. The package was called “Phase 3.5” because it replenished existing programs. The measure added \$310 billion to the Paycheck Protection Program (PPP) which was [designed to help small businesses](#) pay workers—the original tranche of \$349 billion was [exhausted within two weeks](#). The package also provides \$60 billion in funds for a separate small business emergency loan program, \$75 billion for health care providers to offset lost revenues and \$25 billion to expand testing capacity.

Attention now turns to the next round of coronavirus economic relief legislation, referred to as “Phase 4”. House Democrats recently [outlined the contours of their phase 4 package](#), expected to come in at over \$1.2 trillion. The proposal includes funding for state and local governments (approximately \$1 trillion), additional funds for hospitals and coronavirus testing, money for the U.S. Postal Services, expanded nutritional benefits and another round of direct payments for Americans. This package does not include a payroll tax cut, something President Trump has repeatedly called for, or liability protections for businesses, a top priority for Republicans. In addition to the policy differences, this is setting up a clash with the Senate as Majority Leader Mitch McConnell (R-KY) called for a pause in emergency legislation to allow for the funds already allocated to get disbursed. Since returning to Washington, the Majority Leader has also prioritized advancing executive branch appointments as well as judicial nominations through the Senate.

Oversight over the pandemic response is another flashpoint across Capitol Hill and up and down Pennsylvania Ave. House Democrats are becoming increasingly frustrated in their efforts to conduct oversight and the President stated that he will not allow officials to testify in the House because he does not want them appearing before [“a bunch of Trump haters.”](#) The President made clear in remarks to the press that he is choosing which committees officials can appear before based on the party in charge—therefore Dr. Anthony Fauci was [prohibited from appearing](#) before a Democrat-controlled House panel but was allowed to offer testimony before the Republican-led Senate Health Education Labor and Pensions Committee. Democrats have also [run into headwinds](#) trying to get transparency and oversight legislation passed in the Senate.

The Fed’s Heavy Hand

Last month, following a two-day policy meeting, Federal Reserve policymakers determined to leave interest rates near zero and promised to expand emergency programs—[pledging to do whatever it takes](#) to shore up the economy. They said the pandemic will “weigh heavily” on the near-term outlook

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and poses “considerable risks” for the medium term. Thus far, in addition to slashing rates, the Fed has unleashed monetary stimulus beyond buying government and mortgage securities to now include lending totaling approximately \$4 trillion to local governments and businesses. [Federal Reserve Chairman Jerome Powell said](#) that they would eventually be a need to “think about a long-term way to get our fiscal house in order,” but at the moment it is “time to use the great fiscal power of the U.S. to do what we can to support the economy.”

Heightened Tensions with China

Anti-China rhetoric from the Trump administration and calls from Congress for punitive action are increasing. Measures reportedly under consideration include ending China’s sovereign immunity so that Beijing can be sued for liability, [several states have already filed suit](#) and Senators Tom Cotton (R-AK) and Josh Hawley (R-MO) have introduced [legislation](#) to that effect. Other proposals include cancelling U.S. debt held by China, limiting Chinese access to U.S. capital by prohibiting federal retirement funds from investing in Chinese equities, sanctioning Chinese officials and entities, and demanding financial compensation. There are also calls to strengthen relations with Taiwan—something sure to draw a sharp rebuke from Beijing. The administration continues to strengthen export controls and Chinese-related transactions face increased scrutiny. There are moves to restrict sales of U.S. technology to Huawei, the Chinese telecom giant. The Trump administration is also trying to limit U.S. reliance on Chinese supply chains, bringing the manufacture of medical goods and technology products back to the U.S., or at least closer to home. Finally, President Trump has threatened to terminate the “phase one” trade deal with China if they do not live up to their commitment to purchase \$200 billion more in U.S. goods and services over the next two years.

Personnel Moves

Department of Commerce – **Robert Blair** is the director for policy and strategic planning.

Defense Department – **Shaun Manasco** has been nominated for undersecretary of the Navy.

Department of Health and Human Services – Assistant secretary for public affairs is **Michael Caputo**.

Department of Homeland Security – **Surya Gunasekara** is the executive director for policy at U.S. Customs and Border Protection.

Department of State – **Manisha Singh** is the nominee to be ambassador to the OECD. **Marshall Billingslea** is the special presidential envoy for arms control.

Department of Transportation – **Joel Szabat** is the nominee for undersecretary for policy.

Export-Import Bank – **Daniel Trulio** is the counselor to the chairman and senior vice president for the program on China and transformational exports.

Treasury Department – **Brian Miller** is the special inspector general for pandemic recovery.

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White House – **Derek Lyons** is the acting director of the domestic policy council. **Stephanie Grisham** is the chief of staff for the First Lady, **Emma Doyle** is the deputy chief of staff.