Billions

US Special

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Summary

- Democrats and Republicans have finally passed a bill on a new Covid-19 relief package which is expected to be signed into law by President Trump.
- The size of the fiscal package is estimated at almost $900 billion, although about half of that is money recycled from the CARES Act.
- The largest chunk is $325 billion for small businesses, including $284 billion for the Paycheck Protection Program.
- The second largest item is $166 billion in direct payment checks. Starting next week, checks of $600 per individual will be in the mail.
- The third largest item consists of $120 billion in extended unemployment benefits. This will provide $300 per week in additional unemployment benefits for 11 weeks.
- The bill does not include funding for local governments or an agreement on liability protection. These two topics were the main obstacles to an agreement in recent weeks.
- The deal includes a compromise on the Fed's special lending facilities. Restarting the identical facilities that were recently requested by the Treasury Secretary to be closed will require congressional approval, but starting similar facilities only requires approval from the Treasury Secretary. These reporting lines are important because the Treasury Secretary will be a Democrat next year, while the Republicans may keep their majority in the Senate.
- Although it took many months to get to this fiscal stimulus package, we should realize that it only covers the first quarter of 2021. Households and businesses may continue to need fiscal support in Q2 and beyond.
- The outcome of these negotiations, which is close to what the Senate Republicans preferred, suggests that the Democrats can forget about the spending spree they have in mind after Biden takes office, unless they win both run-off elections in Georgia.
- For the Fed this fiscal support package reduces the urgency of additional near-term monetary stimulus. However, it remains uncertain how much damage the resurgence of Covid-19 will do to the economy and how much further fiscal support will be provided in 2021. If the Democrats don't win both run-off elections in Georgia, and the Senate Republicans block further fiscal stimulus, there will be more pressure on the Fed to provide monetary stimulus during the course of 2021 if the economic recovery falters.

Introduction

While it took Congress relatively little time to agree on the well over $2 trillion CARES Act back in March (for more details we refer to Trillions), it has taken until December to come up with a follow-up bill that remains below the $1 trillion mark. Initially, the level of the extended unemployment benefits and the funding of local governments were the two stumbling blocks. Recently, the talks were revived due to a bipartisan proposal led by Senators Romney and

Manchin. However, state funding remained a stumbling block. Liability protection became the other obstacle. However, after these two items were removed, the door to a deal was open. Even a last minute disagreement about the Fed's special lending facilities ended in compromise. Was it the resurgence in Covid-19, weakening economic data or the pending expiration of federal unemployment benefits and the moratorium on evictions that spurred Congress into action? Or did the Georgia run-off elections play a role? Anyway, yesterday the House of Representatives and the Senate passed a covid relief bill of close to $900 billion. The covid relief bill will be attached to a $1.4 trillion spending bill funding the federal government through September 2021. It is now up to President Trump to sign the entire bill into law.

Meanwhile, President Trump signed a stopgap funding bill today that will keep the federal government open through December 28. In recent days several stopgap measures prevented a government shutdown while Democrats and Republicans were negotiating a covid relief bill.

The package

So what's in the package? The largest chunk is aimed at **small businesses** ($325 billion). The bulk of this is made available for the Paycheck Protection Program ($284 billion). There will also be $20 billion available for target Economic Injury Disaster Loans (EIDL) for small businesses and $15 billion for live venues, independent movie theaters, and cultural institutions.

The second largest item consists of **direct payment checks** ($166 billion). They will be sent in one round. Yesterday on CNBC Mnuchin said that that checks would be in the mail starting next week. The checks will be $600 per individual, i,e, $600 per adult and $600 per child. The amounts will be decreasing for individuals with more than $75K in income and couples earning more than $150K. Democrats and especially the White House pushed for direct checks. However, this is smaller than the CARES Act checks which provided $1200 for adults and $500 for dependents.

The third largest item are **federal unemployment benefits** ($120 billion). Enhanced federal unemployment benefits (Federal Pandemic Unemployment Compensation, FPUC) of $300 per week will be available for 11 weeks. What's more, the federal program that widens the eligibility of unemployment benefits to for example the self-employed (Pandemic Unemployment Assistance, PUA) will be extended until it begins phasing out in mid-March. Also, the federal program that increases the duration of unemployment benefits (Pandemic Emergency Unemployment Compensation, PEUC) will be extended until it begins phasing out in early April.

The package also has $82 billion for **schools,** including $54.3 billion for K-12 schools and $22.7 billion for higher education. There will be $55 billion for **vaccines, testing and tracing.** This includes $32 billion for vaccine procurement and distribution and $22.4 billion for testing and tracing of the coronavirus. There is $45 billion for **transportation**, including $15 billion for airline payroll support, $14 billion for transit systems, $10 billion for state highway funding, $2 billion for airports, $1 billion for airline contractors and $1 billion for Amtrak. There will be $25 billion for a new emergency **rental-assistance** program. The agreement extends an eviction moratorium until January 31.

Among the smaller items, there is $13 billion for **nutrition**, $13 billion in **farm aid**, $12 billion for **small banks** that serve low-income and minority communities, and $10 billion for **child care** assistance to help get parents back to work and keep child care providers open. Finally, there is $7 billion for **broadband** internet access, including $3.2 billion for a new temporary benefit program to help low-income Americans get access to broadband services and $1.9 billion to replace telecom network equipment that poses national security risks.

In total the fiscal package is estimated at $892 billion, see Table 1.

Table 1: Covid relief bill

Measure	*Description*	*Total cost ($ billion)*
Small businesses	Incl. PPP ($284 billion)	325
Direct checks	$600 per individual (onetime)	166
Extended unemployment benefits	$300 per week for 11 weeks	120
Schools		82
Vaccines, testing and tracing		55
Transportation		45
Emergency rental-assistance program		25
Nutrition		13
Farm aid		13
Small banks that serve low-income and minority communities		12
Child care		10
Broadband access		7
Other items		19
TOTAL		892

Sources: Pelosi-Schumer, Wall Street Journal, Reuters

Creative with numbers

With a total size of almost $900 billion this is the second largest fiscal stimulus package in US history. It is less than half the size of the CARES Act, adopted in March, but slightly larger than ARRA Act of 2009. However, calling this a $900 billion package is a bit misleading as about half of it is recycled money from the CARES Act that was signed in March. Keep in mind that on November 19, Treasury Secretary Mnuchin asked the Fed to return unused funds from the CARES Act to the Treasury. This would allow Congress to re-appropriate $455 billion, consisting of $429 billion in excess Treasury funds for Fed facilities and $26 billion in unused Treasury direct loan funds.

So about half of the 'new' fiscal stimulus is funded by unused funds from the CARES Act. From a funding perspective, the stimulus package is about the $500 billion that the Republicans had in mind earlier, and much less than the $3 trillion HEROES bill adopted by the House in May. This suggests that the Republicans have won the negotiations, at least for now. The Democrats may try to sell the $900 billion package as a compromise, and a down payment, but in reality Mitch McConnell is calling the shots.

Of course, there could be more coming, but if the Senate Republicans don't lose their majority in the Georgia run-off elections, then this outcome could be indicative of what we can expect in the next two years. Although the Democrats have recaptured the White House, the Senate Republicans may be able to block the spending spree that the Democrats have in mind.

What's not in the package?

In recent weeks the two main points of contention were liability protection and local government funding. Republicans wanted long-run protection for businesses, health care institutions and schools against liability claims from customers incurring Covid-19 on their premises. However, the the initial $908 billion bipartisan proposal (Manchin-Romney) offered only temporary liability protection, which was insufficient for Republicans. Meanwhile, Democrats had inserted funding for local governments.. However, Republicans saw this as bailing out poorly run blue states (Illinois, New Jersey) and cities. By separating these two topics from the rest, the remaining $748 billon bill became acceptable to both parties. This then formed the basis of the final almost $900 billion bill.

However, these two issues will have to be dealt with next year. Businesses will face considerable costs unless they get some liability protection. After the income loss in 2020 this is the last thing they need. And if local governments don't get federal support they could become a drag on the economic recovery as they will be forced to slash employment. Local governments being a drag on economic growth was a key feature of the slow recovery from the global financial crisis.

The compromise on the Fed's special lending

After liability protection and state funding were out of the way, the final hurdle for the fiscal package before the weekend was Republican Senator Toomey's attempt to insert a measure that would prevent the Fed from reviving the special lending facilities that Treasury Secretary Mnuchin recently requested to be closed down. On November 19 Mnuchin announced that a number of the Fed's special lending facilities should be terminated by the end of the year. He requested the expiration of the Primary Market Corporate Credit Facility, the Secondary Market Corporate Credit Facility, the Municipal Lending Facility, the Main Street Lending Program, and the Term Asset-Backed Securities Loan Facility by December 31[1]. Mnuchin asked the Fed to return unused funds to the Treasury. This would allow Congress to re-appropriate $455 billion, consisting of $429 billion in excess Treasury funds for Fed facilities and $26 billion in unused Treasury direct loan funds.

Republicans had earlier indicated they were worried that the Municipal Lending Facility and the Main Street Lending Program could be used by the Democrats to bypass Congress if Republicans were to block additional fiscal stimulus, in particular for blue states. However, Toomey's restriction would tie the Fed's hands using special lending facilities. At present, under Section 13(3) of the Federal Reserve Act, the Fed only needs approval from the Treasury Secretary. Toomey's action shows that the Fed's special lending facilities have become increasingly politicized, and we are now at a point where the political affiliation of the Treasury Secretary has become a factor in setting the boundaries for the Fed.

The compromise that was reached on Saturday is that the $429 billion would be revoked and the Fed will not be allowed to launch *identical* special lending programs without congressional approval. However, this will not prevent the Fed from starting *similar* programs, with the approval from the Treasury Secretary. These reporting lines are important because the Treasury Secretary will be a Democrat next year (somewhere after January 20), while the Republicans may keep their majority in the Senate.

The issue has not been completely settled. The Democrats accepted a compromise that deleted language from Toomey's proposal banning 'similar' programs from being launched without congressional approval. However, Democratic Representative Maxine Waters has already said that

[1] Mnuchin wanted the Commercial Paper Funding Facility, the Money Market Mutual Fund Liquidity Facility, the Primary Dealer Credit Facility, and the Paycheck Protection Program Liquidity Facility be kept in place for an additional 90 days.

if the Democrats win both runoff elections in Georgia, Congress should rewrite this language and give the Fed more discretion.

Conclusion

Although it took many months to get to this fiscal stimulus package, we should realize that it only covers the first quarter of 2021. Households and businesses may continue to need fiscal support in Q2 and beyond. For the Democrats this is only a down payment and they will continue to push for more fiscal support, including for local governments. Meanwhile, Republicans will continue to ask for liability protection. What's more, they think that fiscal (and monetary) support to local governments is really about bailing out states and cities that are run poorly by Democrats. Finally, Republicans have become budget hawks again now that the Democrats are about to take over the White House. Therefore, this covid relief bill is only a temporary solution and we are likely to see another fiscal battle in the first half of 2021. The bargaining power of the two parties will be decided in the two Georgia runoff elections for the Senate on January 5. The negotiations of the current covid relief bill suggest that if the Republicans hang on to their majority in the Senate, the Democrats can forget about the spending spree they have in mind once Biden is inaugurated on January 20.

For the Fed this fiscal support package reduces the urgency of additional near-term monetary stimulus, although it remains uncertain how much damage the resurgence of Covid-19 will do to the economy and how much further fiscal support will be provided in 2021. During the post-FOMC press conference on December 16 Powell stressed that getting through the next 4-5-6 months would be key and that fiscal policy was the appropriate tool. After all, monetary policy works through the economy with long lags. If the Democrats don't win both run-off elections in Georgia, and the Senate Republicans block further fiscal stimulus, there will be more pressure on the Fed to provide monetary stimulus during the course of 2021 if the economic recovery falters.

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