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Bipartisan Senate COVID-19 Package Should Do More to Combat COVID-19, Remove Wasteful Spending

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KEY TAKEAWAYS

Nine months into the pandemic, additional federal aid should be temporary, targeted, and directed at the health crisis; not a blank check for wasteful spending.

While federal activity has been necessary, state and local lawmakers are best positioned to make appropriate decisions on further COVID-19 relief measures.

Federal policymakers should pivot their strategic approach and focus on aiding the deployment of a better public health response anchored in rapid self-testing.

The ongoing COVID-19 pandemic has caused dramatic damage across the world, both for those infected with the disease and those who have lost jobs, income, education, and physical and mental well-being during the shutdowns and restrictions. Elected officials have sought to address the public health crisis and mitigate the economic fallout of the disease.

While the crisis does justify temporary federal activity aimed at providing relief for the emergency at hand, it is not a blank check for wasteful spending. The federal debt has increased by more than $4 trillion since January 1, 2020, and public debt now exceeds the gross domestic product for the first time since World War II.[1] It is imperative for legislators to ensure that COVID-19 relief is targeted, timely, and temporary.[2]

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The proposal recently put forward by a bipartisan group of Senators is far from targeted. It would add hundreds of billions to the national debt, for spending that is mostly not warranted by the pandemic and thus not timely. Further, despite the hefty price, many key provisions would only last through early spring. A much smaller package that focuses on the provision of COVID-19 tests and vaccines, and reduces barriers to employment opportunities, could provide necessary aid without excessively adding to America's unsustainable debt.

Legislative Efforts to Address the COVID-19 Pandemic

Congress has already passed several COVID-19 relief bills, estimated by the Congressional Budget Office to ultimately add $2.2 trillion to the national debt.[3] The most consequential of these was the Coronavirus Aid, Relief, and Economic Security (CARES) Act.[4] The CARES Act included refundable tax credits, and expanded unemployment benefits, business loans, tax relief, aid to state and local governments, the public health response, and dozens of additional provisions.

Flaws in the CARES Act quickly became apparent. These included unintended consequences of the unemployment benefit bonus, problems with business loan eligibility, and bailouts that benefitted heavily unionized organizations, such as airlines and the Postal Service.[5] Also, provisions such as the Exchange Stabilization Fund and several loan programs have not been heavily used, meaning that it is possible to pay for new COVID-19 relief by re-directing unspent funds authorized under the CARES Act.[6]

Many provisions in the relief bills were set to expire on September 30, 2020, and the House and Senate took divergent approaches in crafting follow-up legislation. The House passed the $3 trillion Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, which included many ideologically driven provisions that were unrelated to the pandemic.[7] The Senate did not take up the HEROES Act and instead produced a much more targeted package, which in turn failed a cloture vote.[8] Votes in both chambers were largely along party lines.

On December 1, a bipartisan group of Senators released the outline of a $908 billion COVID-19 relief package that is smaller than the HEROES Act, yet much larger than the fall Senate proposal, and would amount to over 40 percent of already enacted COVID-19 relief measures.

While the sponsors of the proposal have not released legislative text, the package as outlined includes $300 billion for business loans, $180 billion for supplemental unemployment benefits, $160 billion for state and local governments, $82 billion for schools, $51 billion for public health and vaccines,

$61 billion for welfare programs related to food, housing, and childcare, $45 billion for transportation, $10 billion for the Postal Service, and more.[9] The following day, House Speaker Nancy Pelosi (D–CA) and Senate Minority Leader Charles Schumer (D–NY) released a joint statement endorsing the package as a starting point for bicameral negotiations.[10]

> Most of the proposed relief package is not aimed at addressing public health needs, and the economic provisions would be largely ineffective and wasteful.

Unfortunately, most of the package is not aimed at addressing public health needs, and the economic provisions would be largely ineffective and wasteful. The fact that vaccine-related spending accounts for less than 2 percent of the total price tag is telling.[11]

Rather than authorizing wasteful spending unrelated to the emergency, Congress should focus on equipping American individuals to collapse the spread of the virus,[12] starting by making it easy for them to get information about whether they have the virus.

Urgently Needed Public Health Provisions Missing

With COVID-19 cases, hospitalizations, and deaths climbing—a death toll recently surpassing levels on par with American battle deaths in World War II[13]—policymakers rightly want to save lives.

Policymakers' current strategic focus, however, is insufficient and requires a prompt and urgent pivot. Current approaches remain focused on blunt tools, such as mandated curfews, while awaiting a vaccine. Such blunt approaches are predicated on the assumption that it is impossible to know who has the virus. But current policies leave no way for determining, on a rapid and widespread basis, who has the infection and may be spreading it to others.[14] Furthermore, the vaccine remains months away from being widely available, and awaits a public with mixed feelings about getting it.[15] Even once the vaccine is available, Americans will need to be vigilant to prevent further outbreaks.

A better path is available. Technology exists to equip Americans with knowledge of their COVID-19 status using self-administered tests, including rapid tests. Appropriate use of these tests could collapse the spread and transform the response to the virus.

The Department of Health and Human Services (HHS) has purchased 150 million rapid tests already, but this is insufficient.[16] According to some estimates, a useful response would require that half the population test themselves with a rapid test every four days.[17] Some estimates suggest that the cost to taxpayers for such a testing program could be $15 billion.[18] If the federal government provided that $15 billion,[19] it would be a drop in the bucket compared to current spending—roughly 1.5 percent of what is envisioned in the Senate proposal, and less than 1 percent of total federal coronavirus relief to date. It would also be a small amount when set against the investment return in lives and livelihoods.[20]

Achieving this strategic pivot requires Congress to act. Congress should ensure that the HHS is able to undertake massive distribution of rapid self-tests for use in homes, offices, and other public places. Congress should begin by providing resources that would commit the HHS to pre-purchasing rapid tests roughly over the next two years, so that the virus is contained, and that schools and businesses can open safely and remain open.

Congress also should direct the HHS to adjust its regulatory posture toward these tests. For example, one of the cheapest, most effective, and easy-to-use rapid tests—delivering results for $5 in 15 minutes—can give results at home,[21] but the HHS has not cleared it for full home use. Instead, users have to mail the test to a government-certified lab to get results, when what is needed to keep pace with the disease are tests with near-instant results that can be done by anyone.

The HHS needs to remove these requirements, allow these tests to function more like home-pregnancy tests, and rapidly evaluate additional rapid self-tests for approval. Further, Congress should direct the Centers for Disease Control and Prevention (CDC) to provide clear guidance about who should get tested and when. The CDC's guidance remains conflicting and contradictory, with different web pages recommending different things.[22]

There is no time to waste. As we have entered a season of rising cases, we have already reached unprecedented caseload levels. The policies suggested here would replace ignorance with knowledge, save lives and livelihoods, and allow Congress to avoid pursuing an endless cycle of blunt tools, which do not sufficiently curb the virus, followed by taxpayer bailouts to offset their effects.

While failing to pursue these reforms, this bill would also advance deeply flawed policies, including some outside the scope of the current emergency. It is important for lawmakers and the public to understand the inherent problems in many of these provisions.

Leaving Unemployment Insurance Decisions to the States

The bipartisan proposal includes about $180 billion in federal unemployment benefits in the form of extending pandemic unemployment insurance programs by 16 weeks, through April 2021, and adding a $300-per-week federal supplement in addition to state unemployment benefits. In March 2020, when businesses across the country were first forced to shut down, it made sense for the federal government to supplement state unemployment insurance benefits. (It never made sense, however, to provide an extra $600 to everyone, which resulted in most unemployed workers receiving higher unemployment benefits than their usual paychecks.)[23] However, with the unemployment rate already at or below 6 percent in half of the states, and 6.4 million job openings available nationwide, adding an extra $300 per week to unemployment insurance benefits could do more harm than good, and it would still leave a significant number of workers with higher unemployment benefits than their usual paychecks.[24]

Countless economic studies have shown that extended unemployment benefits lead to higher and longer unemployment. A New York Federal Reserve study estimated that the unprecedented 99 weeks of unemployment benefits available during the great recession raised the unemployment rate by 3 percent in 2010, and 2.2 percent in 2011.[25] That is not only bad for unemployed workers, but also for state budgets, because it would mean higher unemployment insurance costs and lower tax revenues.

States that have allowed society to re-open safely are well on their way to recovery. Those that have imposed excessive lockdowns not rooted in data have families struggling, children losing ground, and businesses failing.[26] In October, the 10 states with the fewest restrictions had unemployment rates below 5 percent on average, while the 10 with the most restrictions averaged 7.6 percent unemployment.[27]

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Federal taxpayers should not have to subsidize state and local policy-makers' decisions (which are often not rooted in the data or science) to lock children out of schools or to prohibit small business owners from opening their doors. It may make sense for states that are imposing significant closures to provide their own unemployment benefit extensions. However, those choices and costs should be left to the state and local policymakers who are responsible for the decisions that affect individuals' and families' everyday lives, and their ability to earn a living.

Instead of subsidizing unemployment and encouraging excessive shutdowns, federal policymakers should help to open more doors to employment opportunities by providing a safe-harbor liability protection for businesses and workers that follow CDC guidance in good faith; clarifying and harmonizing the government's multiple definitions of "employee" versus "contractor;" codifying the direct-control definition of a joint employer; and not driving up the cost of employment through policies such as excessive minimum wages and prohibitions on independent workers.[28] All of these employment supports would come at zero cost to federal taxpayers.

Additional State and Local Government Aid Is Unnecessary

The federal response to the COVID-19 pandemic has already provided $360 billion to state and local governments in direct aid to cover costs of coronavirus spread and containment, support for education systems, childcare for frontline workers, and subsidies for mass transit systems.[29] The bipartisan proposal would provide another $160 billion.

In addition to direct aid, the Federal Reserve has provided $500 billion in short-term loans for state and municipal governments, of which only $1.7 billion has been used.[30] Moreover, the $1.2 trillion in relief for individuals and businesses represent further indirect support for states, which has already begun to materialize as higher income and sales tax revenues.

Many states also entered this crisis with well-funded rainy-day accounts. At the end of 2019, state rainy day funds contained $75.5 billion, which could cover 8.7 percent of annual expenditures.[31]

State revenues have fared much better than most predictions.[32] State and local revenues only declined by 1.4 percent in fiscal year (FY) 2020, which ended in June. That is a $21 billion revenue loss compared to FY 2019, according to preliminary non-seasonally adjusted Census data.[33] Thus, Congress has already authorized federal aid to state and local governments equal to 17 times their 2020 revenue losses and two times their expected 2020 and 2021 combined losses. The large influx of federal money allowed state and local governments to report a $100 billion surplus in the final quarter of FY 2020.[34]

Instead of raising taxes or asking for a federal bailout, state revenue shortfalls in the few states that have been particularly hard hit or poorly managed should be addressed by working to re-open local economies safely, rolling back recent spending increases, and bringing public employee compensation and retirement benefits in line with the private sector.[35]

Bailing out state and local budgets with unrestricted federal dollars would not protect state taxpayers from higher taxes, as aid simply moves state funding shortfalls into the future. When the federal money runs out, states have historically increased taxes, with each dollar of federal grant money resulting in 40 cents of state and local tax increases.[36]

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Federal subsidies also undermine local decision-making about the best pace for re-opening and set a dangerous precedent that could lead to trillions of dollars in additional federal bailouts of the most irresponsible states and localities. Federal aid tends to expand state budgets and make them less resilient during future crises, perpetuating problems like systematic pension underfunding.[37]

Moving state funding to the federal government does little more than redistribute local costs to federal taxpayers across all 50 states. It certainly does not make sense for the federal government to assume state and local shortfalls when the federal government already has about seven times as much debt per capita than state and local governments. Congress can help states by providing flexibility for existing funding sources and lifting unfunded mandates.[38]

Leaving Business Aid to the States

The CARES Act and subsequent legislation authorized up to $670 billion in small-business lending through the Paycheck Protection Program (PPP). Between April 3, 2020, when the program opened, and August 8, 2020, when the program closed to new loan applications, a total of $525 billion was approved for more than 5 million borrowers. The loans will be forgiven if they are used to pay for qualifying wages, paid leave, health or retirement benefits, rent, interest on an existing mortgage, or utilities.

The bipartisan proposal would authorize an additional $300 billion for another round of PPP loans, with new limits on who can claim the loans. In spring 2020, some federal government support for businesses and their employees was appropriate. The contours of the coronavirus pandemic were largely unknown and swift actions to support businesses and their employees affected by closure and stay-at-home orders was reasonable.

Now, nine months into the initial policy response, Congress should learn and adapt. The small-business loan program has been ineffective at boosting employment. Three initial assessments of PPP found that the program cost between $109,000 and $380,000 per job saved.[39] The average annual earnings for eligible employees is $45,000.[40]

Moreover, the PPP was not well targeted to small businesses or those most in need because it did not require businesses to show lost revenue in order to receive loans and loan forgiveness. More than half of the loaned funds were captured by just 5 percent of businesses, which disproportionately maxed out the $10 million loan threshold.[41]

When the loans are forgiven, more blatant inequities will arise. Because of poorly designed rules, businesses that suffered massive disruption and those that saw minimal disruption will be eligible for similar levels of loan forgiveness, creating large windfalls for some and leaving many medium-sized businesses with more than 500 employees to receive nothing.[42]

> It is time for Congress to learn and adapt: The small-business loan program has been ineffective at boosting employment.

Additional federal business aid would be unwise. State and local policymakers oversee decisions that affect businesses' abilities to operate, and they should assume the potential costs of new and ongoing business, school, and other closures they impose. States with the most restrictive economic policies are those that are suffering the largest business and employment losses.[43]

Federal taxpayers should not continue to subsidize state and local decisions to shutter businesses and ruin livelihoods. Renewing the PPP program moves the costs of overly restrictive shutdowns to federal taxpayers and allows governors additional latitude to keep society shuttered with one-size-fits-all policies. Targeted, temporary, and local economic restrictions may be necessary, but those decisions, and the costs that they incur, should be weighed by the responsible policymakers.

Congress Should Avoid More Education Bailouts

The proposal would spend $82 billion in additional bailouts on K–12 education—a breathtaking sum that is $10 billion more than the entire federal Department of Education's annual budget.[44] Congress already spent more than $31 billion in additional support for K–12 education and higher education as part of the CARES Act earlier this year. As federal taxpayers provide a modest 8.5 percent of all K–12 education funding, the $13.2 billion provided via the CARES Act to elementary and secondary schools represented a significant annual boost to sector spending.

The U.S. Department of Education reports that, as of September 30, just 12 percent of the $13.2 billion Elementary and Secondary School Emergency Relief (ESSER) Fund has been spent by states, along with just 18 percent of the $3 billion that was also allocated to K–12 schools as part of the Governor's Emergency Education Relief (GEER) Fund in the CARES Act.[45] And, as the Education Department notes, eight governors have yet to spend more than 1 percent of their ESSER funds, and 34 Governors have yet to spend more than 1 percent of their GEER funds.

Congress should not provide additional education bailouts when states have yet to spend CARES Act funding. As the Department of Education notes, "the slow rates of expenditure suggest that states do not need the funds urgently."[46]

States and localities have the primary responsibility for funding K–12 education. As the U.S. Census Bureau reports, K–12 spending in 2020 increased for the sixth year in a row.[47] Indeed, real federal per-pupil spending on public K–12 schools across the country increased from $443 in 1970 to $1,110 in 2016—more than doubling.

When all sources are combined—federal, state, and local—spending per pupil has nearly tripled in inflation-adjusted terms over the past 40 years, rising from $4,708 in 1970 to $13,119 in 2016.[48] In other words, public schools across the country have more than three times as much in real resources today than they did in the 1970s.

Congress does not need to provide additional bailouts in order to re-open schools. Private schools around the country have largely re-opened and have done so safely without large-scale federal bailouts. (Although, like district schools, they were also eligible for a portion of CARES Act funding.) A better approach would be to provide flexibility to states to use existing federal funding on state-determined priorities.[49]

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In addition to the $82 billion proposed for elementary and secondary schools, the proposal would provide an additional $4 billion for student loans. As with elementary and secondary education, Congress had already spent nearly $14 billion in taxpayer money in grants to higher education through the CARES Act's Higher Education Emergency Relief Fund. The Department of Education reports that as of September 30, colleges and universities had spent just 64 percent of the allocated funds.

The federal government paused student loan payments, interest, and collections in August, and while the details of the proposal have not yet been released, the additional funding would likely be used to extend that pause beyond January 2021, when payments are set to kick back in.

Transportation Funds Are Special Interest Bailouts

Of the $45 billion in federal aid for transportation systems, the vast majority is earmarked for airlines, airports, and urban transit. These funds are a poor use of taxpayer dollars.

The CARES Act included $25 billion in loans and $25 billion in grants for airlines to prevent layoffs for a heavily unionized industry that has been hit hard during the pandemic. This was a foolhardy endeavor, since it will likely take years for passenger demand to return to pre-pandemic levels. Keeping surplus employees on payrolls regardless of productivity is a very inefficient use of public resources, and airlines should not receive special indulgences.[50] The CARES Act also included harmful airline service mandates, forcing airlines to fly empty, and nearly empty, planes. This should be avoided in future legislation.[51]

Similarly, the CARES Act provided $10 billion in grants to airports. The text governing these grants was drafted poorly, resulting in some small airports receiving years' worth of operational costs. Even setting aside this mistake, the bill deliberately favored low-traffic airports, which have long received preferential treatment for political reasons.[52] Congress should cease propping up under-used airports and should not provide special grants to airports in general. This can be balanced by removing the Passenger Facility Charge limit, which makes it harder for airports to support themselves in good times and bad.

Urban transit systems, which have faced a steep drop-off in fare revenue, received $25 billion in the CARES Act. This was substantial in relation to total annual operating expenses and allowed transit to largely avoid the tough choices faced by businesses across the country. Transit agencies were already heavily subsidized before the pandemic and should address excessive labor costs in lieu of a $15 billion bailout.[53]

Postal Service Bailout Shirks Necessary Reforms

The United States Postal Service (USPS) became the eye of an unexpected political maelstrom in 2020. While much of the attention was centered on mail-in voting, its financial viability was also a concern. The CARES Act provided the USPS with a $10 billion loan to ensure continued postal operations. Although there was speculation that the USPS would go bankrupt by summer 2020 even with the loan, this was not the case.[54]

While demand for First Class mail declined, the USPS benefitted from a surge in package deliveries and ended FY 2020 with a 3 percent revenue increase. Operational costs increased faster, leading to a net loss of $9.2 billion.[55]

However, it would be incorrect to blame the deficit on COVID-19. Most of the year's losses came in the quarters prior to the March outbreak.[56] In addition, the USPS lost a comparable $8.8 billion in FY 2019.

The new relief package forgives the $10 billion CARES Act loan, which means that the aid to the USPS far exceeds any plausible losses caused by the pandemic. On a positive note, it requires the USPS Board of Governors to submit a plan for fiscal solvency within 180 days.

The USPS suffers from chronic deficits due to long-standing structural problems, most of which are the result of burdensome legislative mandates. Since the USPS currently has enough financial resources to maintain operations through at least fall 2021, Congress should enact postal reform legislation to allow for cost-saving changes rather than providing a handout that will only serve to delay the inevitable.[57]

Conclusion

While some degree of federal response to COVID-19 is warranted, legislators should first focus on getting Americans the tools to end COVID-19, and only approve new spending when justified by conditions on the ground. And, if and when they do so, any COVID-19 relief bill should be written, debated, and amended on its own, rather than being attached to appropriations legislation. Temporary and targeted responses are especially important given the skyrocketing federal debt, which is a looming threat to America's future economic growth.[58]

A smaller relief bill focused first on giving Americans access to rapid self-testing and vaccines, utilizing unspent funds authorized in the CARES Act, would address national health problems stemming from the COVID-19 pandemic without needlessly adding to the debt.[59]

Federal policymakers can, without any cost to taxpayers, help to reduce unemployment by providing limited liability for workers and businesses that follow CDC guidance, by replacing rigidity with flexibility, and by opening doors to income and work opportunities for all Americans. Actions such as respecting individuals' right to work, repealing wage and employment restrictions that reduce jobs, and ending restrictions that limit workplace flexibility are the types of policies that led to a 50-year record-low unemployment rate, and they are the same policies that will help America return there.

State and local governments can help by limiting economic restrictions to those that would meaningfully reduce the spread of the disease, and by eliminating job-killing regulations that predate the pandemic.[60] This would enable a swift economic rebound in conjunction with the forthcoming distribution of COVID-19 rapid tests and vaccines.

There can be no doubt that the COVID-19 pandemic is one of the costliest challenges in modern history. Legislators must understand that responding with wasteful and inappropriate debt-financed spending, especially when it is not focused on addressing the immediate public health challenges, will only increase those costs. Moreover, failure to include the public health spending on testing fails Americans by leaving on the table tools that could halt the spread of the virus and save lives.

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