The Daily Dish

Update on Coronavirus Response

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Eakinomics: Update on Coronavirus Response

Friday saw important developments in the response to the coronavirus pandemic at both ends of Pennsylvania Avenue. The president announced a state of emergency that permits federal officials greater latitude in their activities. Good enough.

But the president also engaged in some purely political pandering, saying “To help our students and their families, I’ve waived interest on all student loans held by federal government agencies and that will be until further notice.” Free student loans must scare the bejesus out of the virus.

But there was more, “Based on the price of oil, I’ve also instructed the Secretary of Energy to purchase, at a very good price, large quantities of crude oil for storage in the U.S. strategic reserve.” This, he argued would be “helping our oil industry.” The global oil price slump is a challenge for U.S. producers, but attempted price fixing via the Strategic Petroleum Reserve is not appropriate, will not work, and distracts from dealing with the pandemic.

At the other end of Pennsylvania Avenue, the House of Representatives passed the Families First Coronavirus Response Act (“Families First”). There are four components to an effective overall response: (1) the public health mission of testing and treatment, (2) insulating workers and families from the economic fallout to the extent possible, (3) targeted policies for critical industries (e.g., transportation), and (4) general pro-growth fiscal policy.

Families First is (2). Among many provisions, it insulates households from costs of testing, beefs up unemployment insurance, and creates a new paid leave program for those who work in firms of 500 employees or less and are off work because they are suspected of being ill, are ill, are caring for someone ill, or are staying home because schools are closed.

Specifically, there is temporary paid sick leave for 80 hours (prorated if part-time employee) at 100 percent of wages that expires at the end of 2020. The federal government picks up the tab for this, technically via a payroll tax credit. But the credit is capped depending on why the employee is on leave:

- If employee is out because (i) employee is diagnosed with coronavirus, (ii) employee has symptoms of coronavirus and getting diagnosis, or (iii) complying with quarantine, then up to $511 per day is paid for by federal government through the credit; or
- If the employee is out because (i) caring for family member or (ii) school/daycare is closed, then up to $200 per day is paid for by federal government.

At this point, the House Democrats couldn't resist doing a little political pandering as well. Rather than simply beef up the sick leave (above), they created a second leave program. It represents an expansion of the Family and Medical Leave Act (FMLA), which to date has provided unpaid leave for up to 12 weeks. The Democrats took advantage of the crisis to turn it into a *paid* leave law, but only if the cause is coronavirus, and Republicans forced a sunset at the end of 2020.

Specifically, FMLA leave paid at 2/3 of wages for 10 weeks (the first 2 weeks of the 12-week FMLA period may be unpaid). This paid leave is for the same reasons as above. Once again, the government pays for this, but only up to $200 per day. The real trick is that the employee can use the emergency sick leave program – or other accrued or paid leave – during the 2 weeks of unpaid FMLA leave.

From an economic perspective, workers off the job represent a negative supply shock, while the loss of their wages and purchasing power are a negative demand shock. The impact of the unemployment and leave programs is to offset (at least in part) the demand impacts. But, to be sure, one can anticipate considerable economic difficulty over the near future.