

April 16, 2020

Today's Driving Events

- **Phase 3.5 Stand-Off Foreshadows Bigger Fights Over Bigger Stimulus:** Although we expect a Phase 3.5 stimulus bill that provides both additional funding to the Paycheck Protection Program as well as more spending on some of the Democrats' top priorities will eventually pass next week, the current stand-off over this relatively narrow measure foreshadows the increasingly challenging partisan fights that are likely to delay broader further stimulus measures, starting with the Phase Four package, on which negotiations are expected to begin in a couple of weeks.
- **Trump's Great Society:** The Trump administration's defining healthcare legacy prior to the Covid-19 pandemic was its persistent efforts to get rid of the Affordable Care Act, be it through legislation to repeal and replace the law, executive actions to undermine it, or lawsuits to get it overturned. However, in light of the pandemic, President Trump's healthcare legacy is now ironically going to be the broadest federal expansion of the government into healthcare since WWII, which could increase the prospects for a public option becoming a reality if Joe Biden defeats Trump in November and the Democrats gain full control of Congress.
- **Future Defense Spending Could Suffer Collateral Damage from Today's War:** With the unprecedented level of fiscal stimulus now required to combat the so-called "Invisible Enemy's" economic fallout, one of the potential casualties of this current war could be future defense spending.

What Congressional Republicans Want in Covid-19 Legislation: Senate Majority Leader Mitch McConnell (R-KY) is expected to seek unanimous consent again today to pass the GOP's two-page bill to boost existing funding for the \$349 billion Paycheck Protection Program (PPP) by an additional \$251 billion during a pro forma Senate session. The Democrats are expected to object, leaving the program running on fumes or completely on hold, per the latest Small Business Administration estimates. The sense among McConnell and others in GOP leadership is that they have the upper-hand in negotiations for Phase 3.5 legislation, as they see the Democrats as over-reaching in their demands. **However, it may be**

McConnell who is under-reaching as congressional Republicans are behind the curve of the other players in Washington regarding the totality of what is perceived as being needed to effectively combat the economic pains facing America.

Democrats remain united in seeking to add provisions helping disadvantaged businesses in the PPP as well as attaching another \$150 billion in state and local assistance and \$100 billion in direct payments to hospitals and an increase in food stamp funding. Treasury Secretary Steven Mnuchin, a Democrat in his pre-Trump life, is having discussions with Senate Minority Leader Chuck Schumer (D-NY). The Federal Reserve continues to bring out the bazookas (even if it does so reluctantly) as its balance sheet as a share of GDP grows even beyond the level reached during WWII.

Meanwhile, Republican leadership is in a wait-and-see mode on future Covid-19 legislation, narrowly focusing on single issues as they may or may not come to pass. It's not clear this positioning will hold firm with all Republicans though. Senate Small Business Committee Chair Marco Rubio (R-FL) yesterday broke ranks with McConnell's positioning on Phase 3.5 by entertaining the Democratic offer for the PPP, saying, "I think there's strong support for the idea of helping local communities. Every senator, including Republicans, have cities and hospitals, rural hospitals, in their state. I think senators are going to want to see how much their cities and hospitals can expect to get, what's the formula that will determine that distribution and so forth. I think that's one of the impediments. But I don't think there's any disagreement: We have to do something on that issue as well."

We believe Phase 3.5 will ultimately come together by next week, with at least some of the funding across many of the Democratic priorities included. The question after Phase 3.5 is how far Senate Republicans decide to step up to the plate on trillions of dollars of future Covid-19 legislation or whether they choose to cry foul of Democratic offers, leading congressional efforts to get bogged down in political conflicts. Items being discussed for Phase Four include tweaks to the unemployment insurance system to incentivize employment, incentivizing employers to do more testing, and incentivizing the production of antiviral medications and test kits. Additionally, the Senate's \$287 billion infrastructure bill could come to the forefront when Phase Four negotiations start to ripen next month. But in an election year where not just the presidency but the Senate is up for grabs, we expect that McConnell ultimately will come to terms with the need to reprise his Phase Three gumption.

Apart from the latest in Congress, President Trump is expected to announce new guidelines for reopening the country today. At a press conference yesterday, Trump said, "We think that some states can actually open up before the deadline of May 1st." Vice President Pence then played bad cop, noting, "There will be areas of the country that will continue to require mitigation." Trump may be

providing political cover for some Republican governors to ease restrictions, but the authority of Trump remains suspect to most governors on how to proceed in the reopening process. Our [Spotlight Report from yesterday](#) goes into greater detail about the health, economic, and political variables surrounding what we view as a soft launch reopening process.

Trump Administration Oversees Federal Expansion into Healthcare: Despite years of the Trump administration attempting to repeal and replace the Affordable Care Act (ACA), to force greater transparency on hospital spending, to restrict the growth of Medicaid by imposing work requirements, and to lower the price of prescription drugs, the current policy solutions to the Covid-19 crisis are what is likely to make President Trump's most indelible mark on health policy. **We believe that the rapid expansion of the federal government's role in the provision of healthcare coverage and the sheer scale of federal spending to help ameliorate the effects of the crisis will have a lasting impact and the federal government's role as provider of healthcare and health insurance will be one of the key contrasts between the presidential campaign of former Vice President Joe Biden and President Trump.** Although the White House and Department of Health and Human Services (HHS) steadfastly refuse to open a new special enrollment period for the ACA so that the president can continue to use his anti-ACA rhetoric during his re-election campaign, in other ways the Trump administration has gone far beyond the ACA, including taking on a new role as primary payor for uninsured Americans getting treatment for Covid-19 — in essence creating a “skinny Medicare for all who have Covid-19,” according to Larry Levitt of the Kaiser Family Foundation. Additionally, Congress and the Trump administration have agreed to spend enormous amounts of money on the fiscal and public health responses to the pandemic — effectively killing the argument from moderates and conservatives that the country cannot afford a large role for the federal government in healthcare spending with hundreds of billions already appropriated for one year and additional huge amounts likely to come in the months ahead. As with many of the social benefits instituted during the Great Depression and Second World War which were thought to be temporary, such as sick pay and employer-provided health insurance, we expect that the narrative over the federal government's role in providing health insurance that is separate from employment may be about to fundamentally change, particularly if Biden wins the White House and the Senate flips to Democratic control. **Only a few weeks ago, we did not think that a newly inaugurated President Biden would burn his political capital early in his term on his public option plan. However, today, amid millions of middle class people becoming unemployed due to the pandemic (just when they need health insurance the most), we think there may be a permanent shift in the so-called Overton Window whereby middle class Americans who formerly had employer-provided health insurance now begin to question that longstanding system.** This may present a sufficient opening to push through a public option managed by private insurers, and a reduction in the age eligibility for Medicare to 55 or 60, especially since so many of the near retirement age individuals often have a hard time finding comparable work after a layoff late in life. We will publish a

Spotlight Report later today with an in-depth analysis of these issues which will highlight important signals that investors should watch for from the Biden campaign to test this thesis that there is a growing movement to sever the link between health insurance and employment.

Will Defense Spending Be a Covid-19 Victim?: Congress, the White House, and the Federal Reserve have so far committed more than \$6 trillion in fighting the public health and economic consequences of Covid-19. Already greater than a quarter of the US GDP, that number is only going to grow in the weeks and months ahead. At the same time, the federal government is racking up the debt. The Committee for a Responsible Federal Budget [projects](#) the federal debt will exceed the US GDP at the end of FY20 and exceed the prior record high debt level after WWII by 2023. **In a world of record breaking debt levels, deficit hawkishness could come back into fashion, even for defense spending.** In an [op-ed for Defense News](#) yesterday, Todd Harrison, a top defense analyst at the Center for Strategic and International Studies, noted that based on previous periods of high debt levels, a "deficit-driven and strategically uninformed downturn in defense spending could be coming in the next two to three years. While the [Department of Defense] DoD should position itself for the possibility of reduced resources, this does not mean the DoD or Congress should accept cuts as inevitable and abandon the National Defense Strategy. It merely means getting the DoD's budgetary house in order so that if cuts materialize, it is ready to handle them in a strategically informed manner." **In recommending how the DoD should go about this environment, Harrison goes on to suggest that they "start preparing now for an uncertain budget environment. It should clearly identify the 'crown jewel' capabilities it cannot sacrifice, start cutting end strength and lower priority force structure, and prepare for a robust debate over global security commitments and budget constraints. This approach would be prudent even if the post-coronavirus fiscal environment is better than expected."** Those "crown jewels," per Harrison, relate to executing the 2018 National Defense Strategy of counteracting Russia and China. This means protecting the funding and integrity of the DoD's global data infrastructure, known as Joint All Domain Command and Control (JADC2). Meanwhile, the DoD's force structure could be downsized and modernized. **The deficit hawk could certainly reemerge post-2020, increasing pressure for a decrease in discretionary spending. Such spending is divided into non-defense and defense. However, there is little margin for serious cuts in non-defense discretionary spending, leaving defense spending open for greater cuts, particularly if Democrats win the White House and Senate. Even with this added pressure, defense spending and the execution of the National Defense Strategy has critical bipartisan allies. As such, flatline spending could be a more realistic outcome than actual cuts.**

The House and Senate are not in session. Both chambers are not scheduled to return until May 4th. Congress is unlikely to return until it's seen as safe to travel and congregate on Capitol Hill. In the meantime, if Congress needs to take emergency action, members will get a notice to return to DC if unanimous consent and simple voice vote methods are not possible.

White House

President Trump will participate in a G-7 leaders' video teleconference on coordinated action in response to Covid-19 at 8:30 a.m. At 10:00 a.m., the president will host a phone call with members of the House of Representatives. At 11:00 a.m., he will host a phone call with members of the Senate. At 1:30 p.m., Trump will deliver remarks "celebrating America's truckers." At 3:00 p.m., the president will participate in a video teleconference with governors on the Covid-19 response and economic recovery. At 5:00 p.m., Trump is expected to participate in the White House Coronavirus Task Force's daily press briefing.

Macroeconomic

Today, the International Monetary Fund and the World Bank Group will conclude their Spring 2020 meetings. [More information here.](#)

At 8:30 p.m., the Asia Society will hold a webcast discussion titled "The Economic and Financial Impacts of Coronavirus: How Do We Get Back to Normal?" [More information here.](#)

Agriculture

At 9:00 a.m., the World Resources Institute will hold a webinar discussion titled "The goals of the Paris Agreement cannot be met without transformative changes in the agriculture sector." [More information here.](#)

Antitrust and Data Privacy

At 11:00 a.m., the George Washington University Elliott School of International Affairs will hold a webcast titled "Why Has Data Become a National Security Issue?" [More information here.](#)

At 4:00 p.m., New America will hold a webcast titled "Will the Coronavirus Claim Privacy Among Its Victims?" [More information here.](#)

Coronavirus

At 10:00 a.m., the Asia Society Washington Center will hold a webcast discussion titled "Coronavirus: Consequences for South Asia." [More information here.](#)

At 1:00 p.m., the Business Council for International Understanding will hold a conference call briefing titled "COVID-19: Europe - Behind the Headlines." [More information here.](#)

At 5:00 p.m., members of the White House Coronavirus Task Force will hold their daily press briefing.

Financial Services

At 1:00 p.m., the National Institute on Retirement Security, and Northern Trust will hold a webcast titled "The Implications of the Coronavirus on Portfolios." [More information here.](#)

Geopolitical

At 10:00 a.m., the Asia Society will hold a webcast discussion titled "How Has India's Relation to China Changed Under Narendra Modi and Xi Jinping?" [More information here.](#)

At 4:00 p.m., the Center for Strategic and International Studies will hold a webinar discussion titled "Implications of Growing US-China Friction: Perspectives from East Asia," focusing on how the COVID-19 pandemic has intensified US-China strategic competition. [More information here.](#)

At 4:00 p.m., the Atlantic Council will hold a webcast titled "Brazil: Health, Political, and Economic Implications of the Pandemic." [More information here.](#)

At 5:00 p.m., the Harvard University Edmond J. Safra Center for Ethics will hold a webinar on "the current domestic public health and economic crisis within the broader global context." [More information here.](#)

Government Information Technology

At 2:00 p.m., Bloomberg Government will hold a webcast titled "Cyber Defense Acquisition and Cybersecurity Maturity Model Certification (CMMC)." [More information here.](#) Expected participants include:

- Katherine Arrington, chief information security officer, Office of the Undersecretary of Defense for Acquisition and Sustainment, Department of Defense

Healthcare

Today and tomorrow, the Department of Health and Human Services and the Centers for Disease Control (CDC) and Prevention will hold a meeting of the Clinical Laboratory Improvement Advisory Committee (CLIAC) to give updates on CLIAC recommendations, the Genetic Testing Reference Materials Coordination Program (GeT-RM), and the December 2019 CDC's Board of Scientific Counselors, Deputy Director for Infectious Diseases meeting. The two-day meeting will also focus on a report from the Office of the National Coordinator for Health Information Technology (ONC) Health Information Technology Advisory Committee, the laboratory response to the COVID-19 coronavirus disease outbreak, and technological advances in digital imaging. [More information here.](#)

At 11:00 a.m., the Washington International Trade Association will hold a webinar discussion titled "Export Restraints and Health Care Supply Chains." [More information here.](#)

Marijuana Regulations

At 9:45 a.m., the annual summit titled "Smart Approaches to Marijuana" will take place in conjunction with the National RX Summit. [More information here.](#)

Political

At 11:00 a.m., the *National Journal* will hold a webcast titled "COVID-19: The Pandemic's Impact on the Legislative Agenda and the 2020 Election." [More information here.](#)

Tax

At 2:00 p.m., the American Enterprise Institute for Public Policy Research will hold a webinar titled "Dynamic Tax Modeling with the New OG-USA Web Application," focusing on how new computational simulation models are being used to inform public policy decision-making. [More information here.](#)

Tech-Media-Telecom

At 10:00 a.m., the Woodrow Wilson Center will hold a conference call briefing titled "5G: Conflicts, Concerns, Collaboration." [More information here.](#)

At 12:00 p.m., the American Society of International Law will hold a webcast titled "Human Rights in the Age of Artificial Intelligence (AI): Impacts and Safeguards." [More information](#)

[here.](#)

At 12:00 p.m., the Technology Policy Institute will hold a webinar titled "Social Distancing, Internet Access and Inequality During Global Pandemic," focusing on "the roles of income and the diffusion of high-speed Internet on people's ability to self-isolate." [More information here.](#)

Transportation

At 10:00 a.m., the Department of Transportation and the Federal Aviation Administration will hold a meeting of the Safety Oversight and Certification Advisory Committee to review and accept the November 2019 minutes, conduct governance, and consider aviation rulemaking activities and the certification process.



Website



Twitter



LinkedIn



Email

Copyright © 2020 [Beacon Policy Advisors LLC](#)

1701 Pennsylvania Avenue, NW, Suite 200 Washington, DC 20006 | (202) 729-6335

[Our Compliance Policy](#) [Unsubscribe](#)