Quarterly Outlook, August 2021

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I. Overview

After a largely fruitless summer, the Biden administration and Congressional Democrats finally started advancing their legislative agenda just before the traditional August recess. The movement on a bipartisan infrastructure package and a budget resolution sets up an extremely busy and politically challenging fall.

The bipartisan breakthrough on infrastructure broke the logjam but did not guarantee a clear path for the legislation. The fate of the bipartisan infrastructure agreement negotiated exclusively in the Senate is unclear once it reaches the House of Representatives. House Democrats have loudly complained about both process and substance. Passage of a budget resolution and subsequent reconciliation package will also be challenging. For the Democrats, intra-party battles are already brewing between moderates and progressives.

Even as they work to advance the massive reconciliation package, Democrats will have a very full list of housekeeping items to handle. The government will need to be funded, the debt limit will need to be extended and many pandemic-era relief programs are expiring. Navigating all of this, while also passing a massive $3 trillion plus spending package, will not be easy and Republicans have made it clear their votes cannot be counted on for massive spending or debt increases.

The pandemic remains a wild card that has the potential to significantly impact the legislative agenda, the economy, and the country's political mood. Additionally, the pressures of inflation are being felt across the economy. Knowing their window of opportunity is narrow, Democrats are ready to go full bore this fall.

KEY DATES

Eviction Moratorium expired July 31, 2021.

Debt Ceiling: debt limit suspension expired July 31, 2021. (Extraordinary measures are in place. Projections vary on when the government might default on the debt. CBO projects October or November.)

Withdrawal of U.S. Troops from Afghanistan: August 31, 2021.

Unemployment Compensation Benefits Expire: Sep. 6, 2021.

Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation Programs Expire: Sep. 6, 2021.

Additional Medicaid Funding and FMAP Rate for the Territories Expires: Sep. 20, 2021.

Surface Transportation Reauthorization Expires: Sep. 30, 2021.

Government Funding Expires: Sep. 30, 2021.

NDAA Expires: Sep. 30, 2021.

Preserving Health Benefits for Workers Expires: Sep. 30, 2021.

Student Loan Deferral and Zero Percent Interest Rate Expires: Sep. 30, 2021.

COVID-Related Paid Sick Leave Expires; Sep. 30, 2021.

Increased SNAP Benefits Expire: Sep. 30, 2021.

National Flood Insurance Program Expires: Sep. 30, 2021.

Temporary Assistance for Families, Child Care Entitlement, Healthy Marriage and Responsible Fatherhood Grants Expire: Sep. 30, 2021.

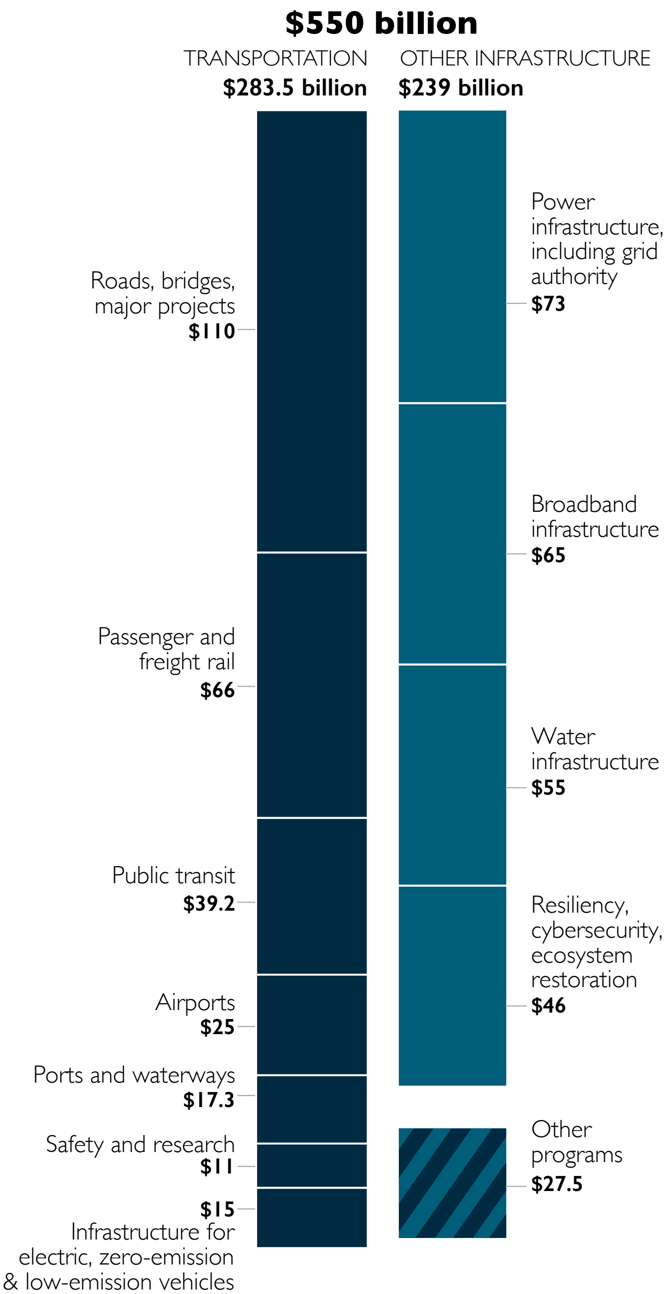
Breaking down the Senate infrastructure agreement's $550B in new spending

July 29, 2021

A bipartisan infrastructure proposal moved forward in the Senate, as 17 Republican senators voted to break a filibuster blocking the bill. On top of baseline spending, the bill would add $550 billion over five years to fund improvements in the nation's transportation, water, electric power and digital infrastructure. Passage of the bill isn't a sure thing yet: Republicans will want to amend the bill, with an eye toward the financing gap. After that, passage will require another 60 votes to close debate.

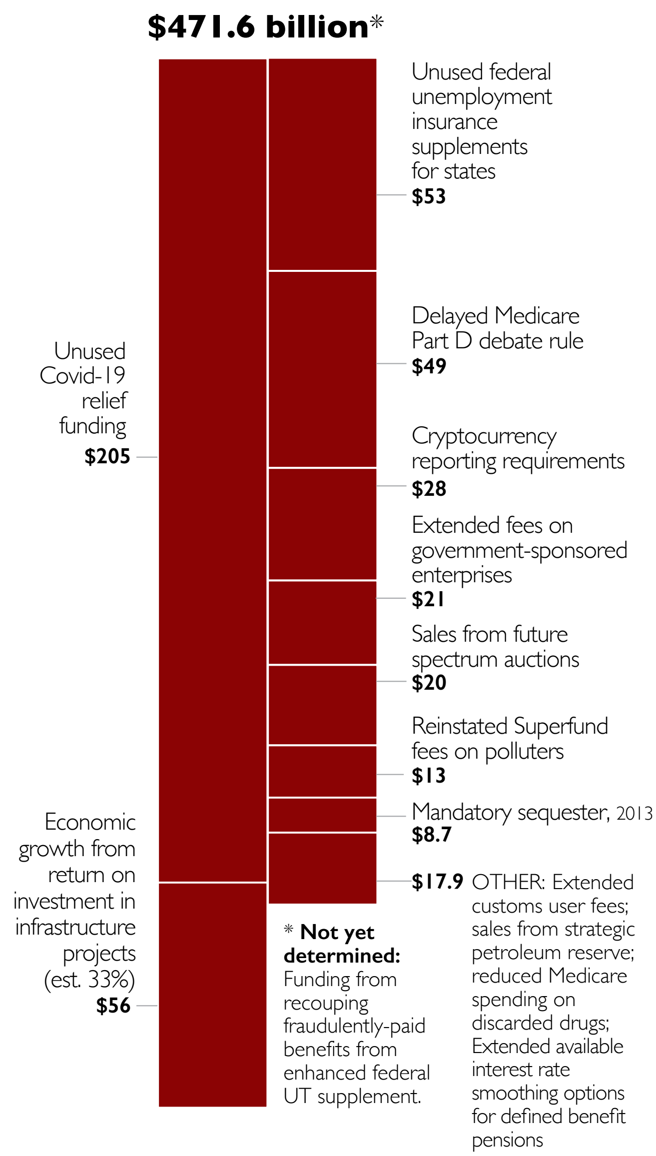
The plan

SPENDING, IN BILLIONS OF DOLLARS



How they want to pay for it

REVENUE SOURCES, IN BILLIONS OF DOLLARS



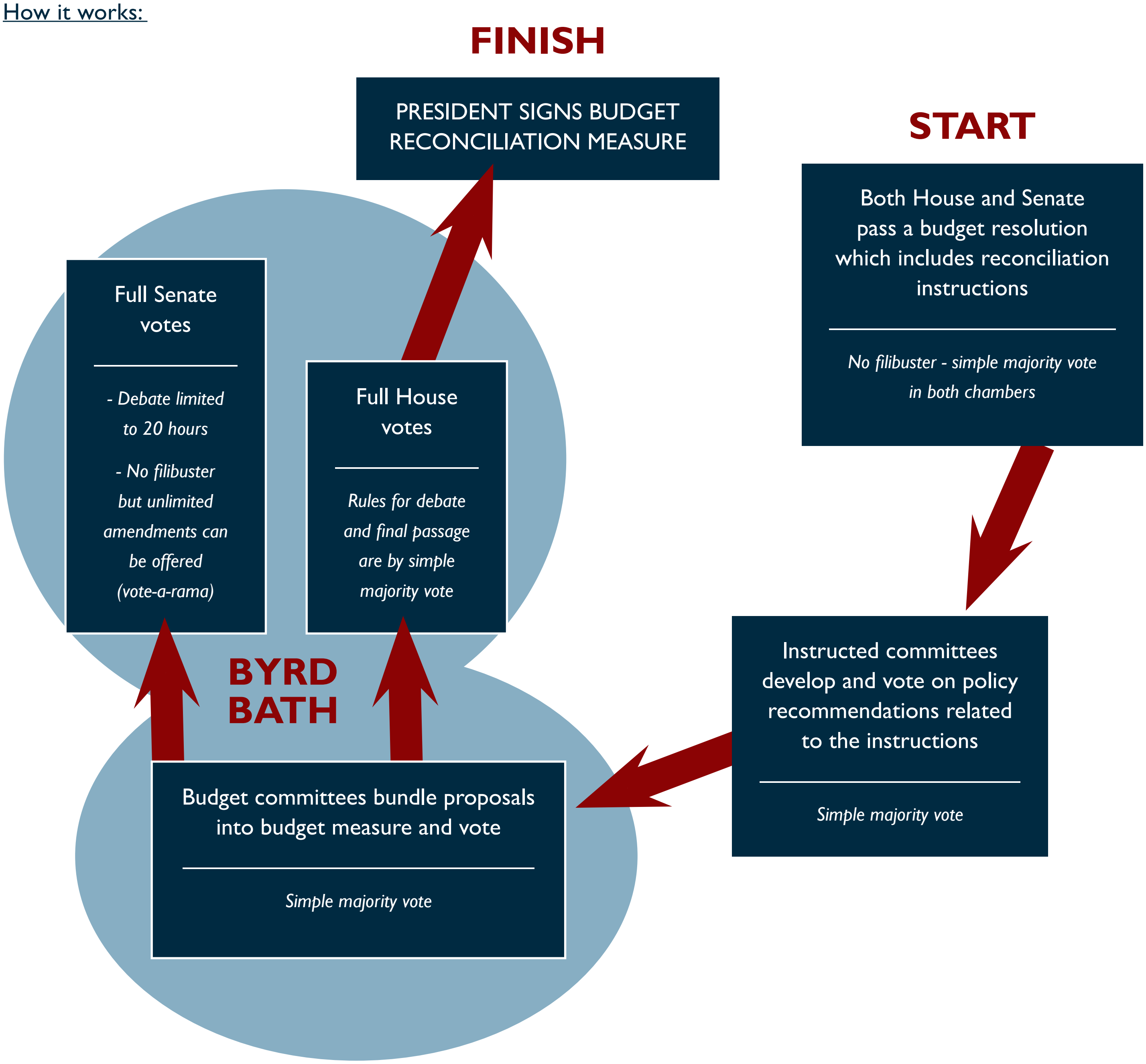
Sources: The White House, POLITICO report by Marianne LeVine and Burgess Everett

By Patterson Clark, POLITICO Pro DataPoint

Reconciliation refresher

Democrats will once again attempt to use the reconciliation process to advance their top priorities.

How it works:



BYRD BATH

To abide by the "Byrd Rule" in the Senate reconciliation provisions must:

1. have a non-incidental effect on the budget
2. not change overall spending/revenue
3. not add to the deficit outside the budget window covered by the bill

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Economic and Political Snapshot

Here's a look at key economic and political indicators as of July 31, 2021.

Public opinion of the direction of the country:

55%

of Americans are pessimistic about the direction.

This is an increase from the 36% from May.

Less than 45% are optimistic; a drop from the 64% in May.

Source: ABC News/Ipsos polls

New home sales:

1.9%

In June, new home sales rose 1.9% from May to a seasonally-adjusted annual rate of 5.86 million units.

This was an increase of 22.9% from June of 2020.

Unemployment Rate: 5.9% - as of June 2021.

Labor Force Participation Rate: 61.6% as of June 2021.

U.S. Seasonally Adjusted GDP Growth: 6.5% (quarter-over-quarter annualized rate) in Q2 2021.

Consumer Price Index: Up 0.9% in June.
Consumer Prices are up 4.7% since February 2020.

Personal Consumption: 11.8% in Q2.

Core Personal Consumption Expenditures: 6.0% (quarter-over-quarter) in Q2.

New Homes Sales: Fell 6.6% from May 2021; fell to an adjusted rate of 676,00 new homes sold in June, from 724,000 sold in May.

Consumer Confidence Index: Ticked up to 129.1 in July, up from 128.9 in June; reaching the highest level since Feb. 2020.

Consumer Inflation Expectation: Dropped to 6.6% in July from 6.7% in June.

II. Bipartisan Take

STATES SPENDING FEDERAL AID STRATEGICALLY

BY PATRICK DOLAN

SENIOR DIRECTOR
STATE ADVOCACY AND APPROPRIATIONS

The influx of $350 billion in emergency funding for state, local, and tribal governments from the American Rescue Plan (ARP) Act represents a critical opportunity for states and local governments to make strategic, long-term investments to support job creation and propel economic growth.

Unlike the federal government, states must balance their budgets each year. Therefore, in an economic downturn, states respond to declining personal and corporate tax revenue by cutting spending, raising taxes, or both to meet their balanced-budget requirements, which creates further drag on the economy and mitigates the impact of federal tax cuts and fiscal stimulus. This is exactly what happened after the great recession when budget austerity measures at the state and local levels worked against federal stimulus from the American Recovery and Reinvestment Act of 2009, and subsequently dragged out the economic recovery for nearly a decade.

The Biden administration and Congressional leaders astutely recognized this dynamic and responded in kind with historic fiscal stimulus to directly support state and local economic recovery efforts and alleviate the need for states and municipalities to pursue shortsighted austerity measures, especially as states and localities were forced to bid against each other – and foreign governments – to source and secure supplies of PPE for medical staff and front-line workers at the beginning of the pandemic.

After the Treasury Department distributed the first tranche of ARP funding to state and local governments in May 2021, Democratic governors plan to invest ARP

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AN UNPRECEDENTED OPPORTUNITY FOR STATE AND LOCAL GOVERNMENTS

BY WILLIAM CROZER

VICE PRESIDENT & MANAGING DIRECTOR
STATE ADVOCACY AND APPROPRIATIONS

State and local governments across the country are in far better financial shape than many anticipated they would be a year ago. Despite dire warnings, data shows that the pandemic-related economic downturn was relatively muted. In FY 2020, state sales tax revenues grew by 0.5 percent and are tracking to increase by upwards of 2 percent in FY 2021. State income tax revenues also rose in FY 2020 by 0.3 percent and are expected to rise by nearly 3 percent in FY 2021.

On top of improving tax revenues, the federal government has infused state, local, and tribal coffers with unprecedented stimulus in response to the COVID-19 pandemic. This includes $150 billion deployed by the Trump administration from the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 and $350 billion from the American Rescue Plan (ARP) Act passed in March of this year. Under ARP, $195 billion is allocated to states and $130 billion to cities, counties, and other local governments. This direct allocation to local governments - alongside the overall dollar amount - distinguishes ARP from CARES with respect to state and local government support.

To put this historic stimulus into context, a recent GAO report estimated the total economic impact of the pandemic on state and local coffers at $61 billion. Moreover, the report concluded that total state and local expenditures remained largely flat throughout 2020 as state and local governments reprioritized

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funding in various ways.

In Michigan, Governor Gretchen Whitmer has proposed a historic $1.4 billion investment to expand access to affordable, high-quality child care; enhance workforce development and talent retention; and invest in sustainable, resilient infrastructure projects such as roads, bridges, clean drinking water, and broadband.

Colorado Governor Jared Polis plans to use $1 billion of ARP funding to fortify the state budget and Colorado's ongoing response to the COVID pandemic, between $400-550 million to address affordable housing and homeownership, $200 million to support workforce development and education, and at least $400 million for transportation and infrastructure investments.

Maine Governor Janet Mills has identified three key priorities: (1) immediate economic recovery; (2) promoting long-term economic growth by establishing a domestic trade program, expanding the Maine career exploration program, and enhancing workforce training and development; and (3) infrastructure revitalization to achieve universally available broadband and critical investments in transportation and drinking and wastewater programs.

In Kentucky, Governor Andy Beshear joined legislative leaders from both parties to sign bipartisan legislation appropriating funds from the ARP to create jobs, build better schools, repay federal unemployment insurance trust fund advances, expand broadband, and invest in infrastructure, including clean drinking water.

Virginia Governor Ralph Northam plans to allocate $411.5 million in federal ARP funding to reduce water pollution and make substantial investments in aging water systems and improve drinking water, wastewater, and stormwater infrastructure. Governor Northam outlined additional priorities to modernize public school buildings, fully fund the Rebuild Virginia small business recovery plan, replenish the state's unemployment trust fund, and accelerate a 10-year plan over the next 18 months to bring broadband to all of Virginia's cities and rural areas.

Exactly one year ago today, the Commerce Department reported that second quarter GDP in 2020 plunged 32.9 percent on an annualized basis, the sharpest drop in U.S. history, and nearly four times the 8.4 percent GDP rate decline at the height of the Great Recession. Conversely, second quarter GDP in 2021 grew at a 6.5 percent annual rate, and despite the murky economic outlook due to the precipitous spread of the Delta variant, there's reason to be bullish about the historic investments at the state and local level, and America's long-term global economic competitiveness.

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resources to address unforeseen costs associated with the pandemic. The takeaway? State and local government budgets fared better than expected during the pandemic, their economies are recovering, and they now have access to once-in-a-generation federal stimulus.

To date, the U.S. Department of the Treasury has distributed upwards of $200 billion of ARP's $350 billion in Coronavirus State and Local Fiscal Recovery Funds. Treasury's interim final rule has shaped its deployment in four principal areas: public health and economic impacts, replacing lost public sector revenue, premium pay for essential workers, and water, sewer and broadband infrastructure. As with the Trump administration and deployment of the CARES Act, the Biden administration has provided additional flexibility, including for vaccine lotteries and to address violent crime.

There are several factors to consider as states and localities deploy their ARP dollars. The public comment period for Treasury's interim final rule governing eligible uses just closed on July 16. While Treasury has provided periodic guidance updates (like with the CARES Act), many officials are waiting on the final guidance to govern their decisions and avoid any compliance issues. Also consider prioritization: state and local officials are fielding an enormous amount of input and requests that they are having to balance - and prioritize - with their own agendas and priorities (political or otherwise). Another factor: impact. State and local officials are looking for investments that will deliver maximum value to and improve the lives of their constituents both in the short and long term. To that end, they are cognizant of trailing costs that might impact the long-term value of these investments.

Finally, consider the timeline. Unlike under the CARES Act, states and localities have a much longer timeframe to expend their dollars (December 31, 2024 vs. December 30, 2020, but since extended to December 31, 2021) and are taking a more methodical approach, particularly when considering the factors mentioned above.

Looking ahead, expect the pace of ARP deployment to pick up once Treasury executes the interim final rule in the coming months. Also expect Treasury – or Congress – to explore enhanced flexibility around eligible expenditures. Already, some localities are lobbying the administration and Congress to allow ARP dollars to be used to pay down debt.

III. Health and Life Sciences

PUBLIC HEALTH EMERGENCY EXTENSION WILL HAVE LONG LASTING IMPLICATIONS ON COVERAGE

On July 20, 2021, Health and Human Services Secretary Xavier Becerra renewed the COVID-19 Public Health Emergency (PHE) under section 319 of the Public Health Service Act. First declared in January of 2020, the PHE can only be active for 90-day periods but can be renewed continuously. The Biden administration announced earlier this year it anticipated the PHE would run at least until the end of 2021 to provide certainty to states and other stakeholders that currently rely on the authorities and programs it enables.

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Practice Co-Head Brent DelMonte

The PHE declaration unlocks a range of special authorities, funds, flexibilities, and waivers not permitted during normal times. During the COVID-19 Public Health Emergency, the most notable of these are 1) flexibilities around Medicare payment for telehealth; 2) enhanced federal funding to states for their Medicaid programs; 3) a bump in Medicare payment for inpatient cases involving COVID-19; and 4) the ability of FDA to authorize medical products to test for, treat, and prevent the coronavirus under emergency use. There are major questions looming over the expiration of some of these temporary authorities. Congress is likely to consider addressing some of them legislatively, which will have long-term implications for the health care system going forward.

Bipartisan Members of Congress are excited about the greater prevalence of telehealth enabled by the PHE. Congress is likely to pass legislation before the end of the year to permanently authorize the broader use of telehealth, but there are many thorny

"Democrats are considering ways to provide a health care coverage expansion in either the Affordable Care Act exchanges or through Medicaid as part of their larger reconciliation effort. But even if they fail on broader health care coverage reforms, dealing with this looming 'coverage cliff' will be a priority."

Robb Walton
Principal, Health and Life Science

issues to work through, such as interstate licensure, reimbursement, and what form of telehealth is appropriate under different circumstances. Lawmakers have introduced legislation to address such issues with the hope of influencing any larger package that might emerge.

The PHE has also had a significant impact on Medicaid enrollment. Medicaid is typically funded through a partnership between the federal government and states. Last spring, Congress boosted federal funding to states to lessen their financial obligations - but also required states to maintain coverage for their Medicaid beneficiaries while they take the funding. The funding and coverage requirements will end at the conclusion of the PHE, and experts predict as many as 20-30 percent of the 80.5 million now enrolled in Medicaid could lose their coverage. Democrats are considering ways to provide a health care coverage expansion in either the Affordable Care Act exchanges or through Medicaid as part of their larger reconciliation effort. But even if they fail on broader health care coverage reforms, dealing with this looming "coverage cliff" will be a priority.

Stakeholders need to continue to make their voices heard on these issues as Congressional committees and leadership begin to give them attention towards the end of the year as the expiration of the PHE draws closer.

IV. State Advocacy and Appropriations

STATES DEALING WITH FUNDING INFLUX, APPROPRIATIONS SEASON SLOW TO START

When legislative sessions ended last year, governors and state lawmakers were braced for a sustained economic slowdown caused by the COVID-19 pandemic. But the much-feared recession lasted just two months.

Overall, state budgets fared better than expected. Some states experienced large increases in tax collections. The American Rescue Plan (ARP) Act further boosted state budgets with $195 billion in aid. For 37 states, ARP aid is equivalent to between 5 and 10 percent of total spending last fiscal year. ARP also provides a separate $130 billion to cities, counties, and other local governments. The additional federal funding has propped up Medicaid programs, local schools, higher education, transit systems, and other areas of budgets.

Forty-eight states have enacted a budget so far this year, according to the National Conference of State Legislatures. Most states begin their fiscal years July 1 and lawmakers were able to restore past cuts, save money for future emergencies and spend more on everything from housing to income tax reductions. States across the country are increasing their spending for fiscal year 2022. Many states are increasing spending by double digits, including Vermont at 14.5 percent, Pennsylvania at 21.3 percent and North Carolina at 11.6 percent. States have until the end of 2024 to obligate all the federal funds and most are not rushing to do so. The Biden administration is currently reviewing public comments and is expected to issue a final rule in the coming months on eligible uses of the State and Local Fiscal Recovery Fund.

Ongoing infrastructure negotiations are front and center at the state and local level. Just recently, 369 mayors from all 50 states sent a letter calling on congressional leaders to "take immediate action" on infrastructure. Additionally, the nation's mayors are pushing Congress to provide permanent

"In the months ahead, dozens of state legislatures will reconvene to finalize allocations for spending federal funds as well as to redraw congressional and state legislative district boundaries following completion of the census."

Kristin Strobel
PRINCIPAL
STATE ADVOCACY AND APPROPRIATIONS

legislative protections for DACA recipients, TPS holders, and undocumented essential workers following a recent ruling from a federal judge in Texas declaring DACA unlawful. Additional issues challenging state and local leaders include surges in homicides and violent crimes, addressing affordable housing amid a housing boom that has inflated home prices, as well as expanding access to affordable early education and child care programs.

One of the many lessons of the pandemic that state and local governments are already addressing is the need to invest resources to harness data as well as improve customer experience across the myriad of services that governments provide. The response has elevated the use of data in decision-making and underscored the ways leaders can bring data to bear on their most pressing concerns including COVID vaccinations and testing, learning loss and public safety. With taxpayers continuing to rely on remote work opportunities as well as virtual government services, leaders at all levels are investing in technology upgrades in an effort to control future costs, reduce fraud and data breaches as well as improve services.

APPROPRIATIONS

To date, the House has completed the markups of all of its appropriations bills for Fiscal Year 2022. For the first time in roughly a decade, the appropriations bills include a significant number of community-funded projects, previously referred to as earmarks, for colleges and universities, municipalities, medical centers, airports and not-for-profit organizations. The House is steadily advancing individual appropriations bills as well as multi-bill "minibus" packages. Currently, the Senate is still in the beginning phases of committee markups and is not expected to tackle the more challenging bills until after the August recess.

Given the new fiscal year starts in October, and ongoing disagreements about levels of appropriations for the Department of Defense as well as other federal agencies, Congress will need to pass a Continuing Resolution in September to allow more time to continue working on appropriations bills. Final passage is not expected until the end of the calendar year and there is potential for a yearlong CR for the remainder of Fiscal Year 2022.

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V. Commerce

SUPPLY CHAIN ISSUES WILL DOMINATE ADMINISTRATION, CONGRESSIONAL AGENDA

Supply chain issues continue to reverberate throughout the U.S. economy even as it recovers from the COVID-19 slowdown. These issues are receiving intense focus from both the administration and Congress.

Looking toward the third quarter, we do expect the House to pass something similar to the United States Innovation and Competition Act (USICA), which moved through the Senate earlier this year. The legislation provides $52 billion in funding for semiconductor research and development in the United States. This funding, known as the CHIPS Act, was authorized by the Congress in 2020. Speaker Pelosi has made clear that the House legislation will differ significantly from the Senate and will thus require a conference to resolve differences. However, we believe both sides understand the importance of providing emergency funding for semiconductor manufacturing in the United States.

In June, the White House released a comprehensive report, as directed by President Biden in a February Executive Order (EO), assessing vulnerabilities in critical supply chains, and announcing further actions to be taken by the administration to strengthen supply chain resilience and address near-term disruptions. Many of the actions outlined in the report are narrowly targeted to support domestic production of four critical products identified in the EO, including pharmaceuticals, advanced batteries, rare earth elements, and semiconductors. However, some of the actions and recommendations will have broader implications. Key highlights include:

"Many of the actions outlined in the report are narrowly targeted to support domestic production of four critical products identified in the EO. However, some of the actions and recommendations will have broader implications."

Jonathan Mantz
Practice Co-Head, Commerce

Supply Chain Disruptions Task Force

Led by the Secretaries of Commerce, Transportation, and Agriculture, this task force will convene stakeholders to help alleviate near-term supply chain challenges that have emerged as the economy starts to recover from the impact of the pandemic. The initial focus will be on industries where there has already been a notable supply/demand mismatch: construction, semiconductors, transportation, and agriculture and food. This will provide a new avenue for high-level engagement and potential solutions for stakeholders impacted by the ongoing shortages in these areas. Commerce will also be leading an ongoing effort to improve the federal government's ability to identify and address supply chain disruptions going forward, potentially leading to requests for a broad range of data and a need for sustained engagement.

Long-Term Strategy to Strengthen Supply Chain

The EO makes recommendations to Congress for significant investments to strengthen U.S. supply chain resilience by rebuilding the U.S. industrial base, including support for the President's American Jobs Plan, dedicated funding for at least $50 billion to support semiconductor manufacturing and R&D, and $50 billion for a new Supply Chain Resilience Program at Commerce that would make investments in domestic production across a range of critical products. Commerce would have significant discretion to support projects viewed as critical.

Defense Production Act (DPA)

The report details plans to invoke DPA authority in specific industries, including pharmaceuticals and defense, but also the formation of a new DPA Action Group to determine how best to leverage the DPA to strengthen supply chain resilience more generally in critical industries, building on the previous administration's work responding to COVID-19. Given the broad potential impact of more widespread application of the DPA, this new Action Group will require close monitoring and engagement.

CONTACTS

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VI. Financial Services

INFRASTRUCTURE PAY-FORS, HOUSING ISSUES WILL DOMINATE FALL AGENDA

Since the passage of the American Rescue Plan earlier this year, the Biden administration has laid out an ambitious agenda for the first session of the 117th Congress. President Biden introduced two more major initiatives: the American Families Plan and the American Jobs Plan. Both of these plans were billed as part of the Build Back Better Plan, as part of the President's infrastructure package. However, this infrastructure package extends beyond the traditional definitions, extending to include "human infrastructure," which includes non-traditional infrastructure policies ranging from universal child care to combatting the repercussions of climate change.

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Recently, the Senate, through a bipartisan group of 22 members, came to an agreement on a bipartisan infrastructure deal. The bipartisan infrastructure framework (BIF) totals $1.2 trillion, which includes $550 billion of new infrastructure funding, over five years. Additionally, Congress is considering a $3.5 trillion budget resolution. Although this resolution is for Fiscal Year 2022 (FY22), Democrats are focused on breaking up President Biden's infrastructure plan into the BIF and a budget resolution through reconciliation.

As both deals are negotiated, Congress and the White House aim to offset all spending through pay-fors. This is an area of major disagreement between Democrats and Republicans, as Republicans have vowed to block any increases to corporate taxes. Amongst those taxes, the most contentious pay-fors include increasing IRS funding for audit enforcement, corporate tax rate, capital gains, carried interest, and dynamic scoring. There is much uncertainty

"I expect Senate Banking Committee Chairman Brown (D-OH) and his subcommittee chairs to have a robust fall agenda. In particular, I predict action focused on overall economic policy, the securities space, and finally housing and mass transit funding."

Fred Turner
Senior Vice President, Financial Services

about which pay-fors will be included in the BIF and the budget resolution. Pay-fors will continue to be an area of heightened interest as both packages move forward.

Additionally, the SEC is moving forward full force in a number of areas. Chairman Gary Gensler was confirmed in April. Since then he has instructed SEC staff to investigate a number of topics, including cryptocurrency, SPACS, and ESG related disclosures. Most recently, Gensler has levied fines related to SPAC violations, stated that there is a need for new cryptocurrency related regulation, and expressed the need for climate and diversity related disclosures. The SEC is not the only entity that anticipates being active in these areas. Additionally, the CFPB is soon to see a new director, as Rohit Chopra's nomination is expected to be voted on the Senate floor. His nomination, however, has come with major pushback from Senate Republicans, especially Senate Banking Committee Ranking Member Pat Toomey (R-PA).

Treasury Secretary Janet Yellen has begun the conversation on stablecoins and has actively made the Biden administration's climate related goals publicly known. Both the House and Senate have increased skepticism of cryptocurrency; there is a chance legislation and regulatory guidance will emerge in this space.

Lastly, the House Financial Services Committee will not be idle. The committee has already been active, holding a number of hearings and passing several bills, including a number of ESG and housing related bills. Housing is a priority for Chairwoman Maxine Waters, but she has made diversity and inclusion a major theme for every hearing. This trend will certainly continue. For the remainder of the year, the committee will pick back up consumer protection, investor protection, and capital markers related legislation, including a bill related to legacy contracts for the transition away from LIBOR.

VII. Public Relations

"THE ESTABLISHMENT" AND VACCINES

BY JEFFREY H. BIRNBAUM

Communications is sometimes an afterthought. Other activities in an organization are given greater weight – from operations to legal affairs. And often that makes sense. But not with COVID-19.

The nation, indeed the world, is facing a true crisis of the unvaccinated. A sizable minority of Americans are refusing to take the shot, which is fueling a dangerous fourth wave of infections. Hospital wards are filling fast.

This is a classic problem of communications: How can the government persuade more people to get vaccinated?

At the heart of this challenge is a daunting fact. A growing number of citizens don't trust "the establishment," a word that encompasses many things including experts, government officials and the media. When these sources urge compliance, a lot of people reflexively refuse.

People don't like being told what to do. Americans are particularly stubborn. But not long ago, they were willing to go along with a lot. Vaccinations don't appear to be one of those things.

Part of the reason is a contradiction. Some refusers say the Food and Drug Administration has yet to fully approve the vaccines. It's given only emergency permission so far. At the same time, plenty of the same people wouldn't believe the FDA, a government agency, even if it gave its blessing.

The credibility of highly educated experts is also doubted, presenting a similar dilemma.

What to do? No one has found the answer. But three approaches have promise.

First, slogans go only so far. But when people are provided the many reasons vaccines are safe and prevent serious illness or death, they are more likely to take the vaccine. People who are hesitating need time – and patiently delivered arguments – to get comfortable enough to change their minds

Second, friends and neighbors are considered better sources of information than remote experts, the media or government officials. Unvaccinated people are prone to go for it if a neighbor or friend who was slow to take the vaccine finally gets one. In other words, convincing the informal community leaders to speak out could be key.

Third, appealing to public welfare might work. Unvaccinated people, especially younger people, often say that they probably won't die if they contract COVID, so why shouldn't they just get the disease, survive, and move on. A response that might succeed in this case involves the threat to life of passing the virus along to more vulnerable people.

Americans are criticized for being self-centered. In fact, we are generous and caring people. The argument that others might get hurt because of our inaction could ultimately win the day.

CONTACT PRACTICE HEAD JEFFERY H. BIRNBAUM

VIII. International and Trade

U.S.-CHINA RELATIONS

The U.S.-China bilateral relationship is as hostile today as it has ever been. The Biden administration has taken the scattershot anti-China approach of the Trump administration and is making it systematized, comprehensive, and sustainable. In the business sector, this means a sanctions process that will survive legal challenges while also looking to curtail possible threats to U.S. national security and overreliance on China for critical supply chains in high tech, health care, and commodities. However, in particular situations when engagement with China works for the middle class and does not sacrifice national security priorities or put critical supply chains at risk, look for the Biden administration to be more flexible than it has appeared so far.

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The very public embrace by President Biden of "the Quad" (India, Japan, Australia, and the United States) as a framework for Indo-Pacific policy is another nod to Trump's hardline approach. At the same time, Biden's lack of bellicose rhetoric – at least compared to Trump – indicates there is some room for engagement. Meanwhile, the Executive Branch is actively engaged in a broad effort to ramp up government regulations to deal with the China challenge but also to effect change that would ostensibly allow for more competition from small busi-

"Both the Democratic and Republican parties are becoming more isolationist, and the band in the middle of both parties that supports American global leadership is shrinking, although noticeably still present. Overall, this growing isolationist trend would seem to support a tougher line on China, as overt engagement with Beijing will not be seen as a positive in either party."

Lester Munson
Principal, International and Trade

nesses. (See the Executive Orders on America's Supply Chains and Promoting Competition in the American Economy.)

Congress is also actively engaged in China policy in a somewhat haphazard manner. The Senate passed the bipartisan U.S. Innovation and Competition Act, which is over 2,400 pages long and will fund high-tech research and has a bevy of hardline policies on China. The House is moving a Democratic-only bill, the Ensuring American Global Leadership and Engagement Act, that focuses more on climate change than a tougher line on China. It is not clear whether the two Chambers can find the necessary middle ground.

Generally, in Congress, we are seeing Senate Democrats take a harder position on China than their House Democratic colleagues, who are more progressive and focused on diversity and environment issues. Both House and Senate Republicans are adopting a fairly hardline approach on China. However, where House Republicans are looking to criticize their House Democratic colleagues (and the Biden administration) as too soft on Beijing, Senate Republicans are more willing to work across the aisle and have Democratic colleagues who are willing to do so too.

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