Biden's 'American Rescue Plan' and Its Opponents

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This past Thursday, January 14, 2021 Biden announced his 'American Rescue Plan' (ARP), a list of programs and proposals purported to generate a robust economic recovery in 2021, just as the US economy continues to deteriorate as a growing list of recent economic data now indicate.

US Economy Faltering Fast

New filings for unemployment benefits have been rising rapidly. From a 'low' of about 1 million/week in December last week's initial claims for benefits topped 1.4 million—when both benefit programs, State administered and the Federal PUA, are counted .

Another red flag indicator is consumer spending (70% of the US economy) and retail sales, its largest component. The latter fell -1.4%% in November and another -0.7% in December, according to just released US Commerce data. These are typical months during which they rise the fastest. Another indicator of consumer spending in growing trouble, credit card spending fell an even larger -2.7% in December, according to Chase Bank's database of 30 million credit and debit card holders. Still another red flag is trade. The US trade deficit based on recent months is now running $85 billion a month and close to $1 trillion a year. Deficits mean US exports, and thus US production for exports, is trailing imports to the US badly—and thus contributing to US GDP contraction in 2021 still further.

The severe weakening in the private sector of the US economy now underway can only be offset by increased government spending and stimulus. The much vaunted recovery of manufacturing activity represents only 11% of the US economy and, furthermore, has already increased most of its potential growth. It cannot continue at past rates or carry the general recovery from here. Only massive government spending at this point can do that.

The $900 Billion December 2020 Non-Stimulus

As the economy has weakened in the latter months of 2020, the US government injected a paltry stimulus in last December's $900B (actually $866B per the Congressional Budget Office). But that will have minimal stimulus effect the current sagging real US economy. Here's why:

Last December's $900 billion emergency stimulus passed just after Christmas continued levels of $300/week in unemployment benefits for 12 million jobless.

First, it just continues the level of unemployment benefits of $300 per week. That's not a net new stimulus. The economy was already slowing fast in November-December despite that $300 level of benefits. Discontinuing the $300 in 2021 would have made the economy worse but continuing it is not make it a further net stimulus. Moreover, that $300 extension in benefits is good for only 11 weeks. It will run out by mid-March 2021.

Then there's the $600 checks part of the December $866B/$900B. That's a net stimulus but a minimal one at best. It injects only $166 billion into the real economy which is miniscule relative to the more than $20 trillion size US economy. Not even 0.01% of the $20 trillion US GDP. And even that assumes the entire $166 billion will actually be spent and not hoarded for future emergencies or used to pay down debt.

The $284 billion for direct small business grants is the largest part of the $900/$866 billion. It will have some net stimulus effect but won't start hitting the economy for weeks and maybe months—first it must be applied for, then distributed, and then actually spent. And we all saw how that process dragged on with the Cares Act small business PPP program last March 2020—and how larger businesses scammed off a good deal of it and then sat on the scammed dollars.

In short, as an economic stimulus funding of the sagging US economy, the $900/$866 billion is a DOA effort to stimulate the economy this first quarter 2021 in particular. It might keep the slowdown now underway from being even worse than otherwise a little. In that sense it's a 'mitigation' package, not a stimulus.

Biden's $1.9 Trillion 'American Rescue Plan' Stimulus

Overlaid on the futile December mitigation package now is Biden's government $1.9 Trillion stimulus proposals announced this past week. But that's still just a proposal—not an actual stimulus spending Act passed by Congress. Moreover, for it have any appreciable effect stimulating the economy, there are three reasons why the $1.9 trillion will almost certainly end up much less.

First, the problem remains how much of the $1.9T will get cut as Republicans, and corporate Democrats, in Congress attack it. Already political forces are organizing to slash billions from the $1.9 trillion, including Democrats. A second reason why the stimulus will not amount to $1.9T net new actual stimulus to the economy is that a large part of it just continues prior spending levels. And that spending level that hasn't been able to prevent the current US economy's slowdown. Third, there's the question of how soon some of the actual stimulus spending will actually be spent and thus actually get into the US economy. Certain programs and their spending will be delayed until well after the current January-March critical period.

So let's describe in detail what's in Biden's 'American Rescue Plan' (ARP) and consider those programs that are likely candidates for cutting by Republican and corporate Democrats in Congress; that constitute just continuation of prior spending; and that will likely experience significant delay before the spending actually hits the economy.

Larry Summers: Corporate Shill Takes the Lead

Forces in and out of government and within both parties are coalescing to roll back the $1.9T Biden ARP proposals. Once again in the lead for corporate Democrats, is former adviser to Barack Obama in 2009, Larry Summers—now also advisor to Biden. Summers is appearing everywhere on corporate and mainstream media outlets declaring that the $1.9T is too much. He's especially attacking the $2000 checks for families earning less than $75K per year in income, saying it's too much. Summer's message is even the $1400 in checks will expand government deficits and will overheat the economy causing inflation.

But there’s been no inflation for the past two decades despite adding $15 trillion to deficits and the national debt. The claim that deficits cause inflation in real goods and services is empirical nonsense, not because of some worn out neoliberal economic theory but because the facts don’t support it. But that old fake economic bogeyman of ‘excess spending leads to deficits that cause inflation’ is being peddled once again by Summers in the lead, on behalf of his corporate Democrat buddies, and of course most of the Republicans. They’ll seek to cut at least $500 billion from the $1.9 trillion.

For Summers this isn’t the first time he’s given fake and dangerous advice to presidents in time of economic crisis. It was Larry Summers who, back in early 2009, as key advisor to Barack Obama on how much to spend on Obama’s January 2009 economic recovery plan at the time, convinced Obama to reduce his 2009 stimulus by $120 billion that the US House of Representatives was prepared to spend. As a result the US recovery lagged badly in 2009-10. Congress had to make up the loss in spending by passing emergency measures like ‘First Time Homebuyers’ and ‘Cash for Clunkers (autos)’ subsidies for households. But by then it was too late. During Obama’s recovery package—amounting to way too little too late now acknowledged by most economists—it took more than six years to recover jobs lost in 2008-09. And then those recovered were at pay levels much less than those that were lost. Meanwhile as well, 14 million of the 48 million mortgages were foreclosed. And tens of millions more were added to the list of those workers without health insurance between 2009-15.

The Biden proposals are numerous and detailed. The ARP is a very detailed set of proposals. But if readers think they understand it by reading the Washington Post, New York Times, or other mainstream media summaries of it they are wrong. What that media has provided thus far is just bits and pieces of information, packaged up with very little analysis as to *how much* of the spending will actually get into the economy, *how soon* might it get there, and whether the $1.9 trillion will yet be *gutted and reduced*—as the ARP ‘wish list’ hits the Republican buzz saw in Congress.

What follows is a breakdown of the spending elements in Biden’s $1.9T ARP proposals, as well as where and how it will likely be attacked and rolled back by Senate Republicans, Corporate Democrats, and Business Interest lobbying friends of Larry Summers.

Part 1: $400 Billion Covid Relief, School Reopening, & Emergency Paid Leave

To begin with, there’s 4 Categories of spending in Biden’s proposed $1.9 trillion ARP. The first is $400 billion for Covid measures, Vaccine distribution, and for reopening the schools. In this group corporate forces and their political allies will likely attack measures for spending $170 billion to reopen the schools as well as the roughly $70 billion more to provide for 14 weeks paid emergency leave for workers who have to leave their jobs due to schools or child care center closings, to care for family members sick or to quarantine themselves. The measure also extends such paid leave for the first time to the 2 million federal employees and to reimburse state and local governments for the cost of the leave. The paid leave maxes out at $1,400/week and for workers earning $73K per year in annual income. In other words, it covers roughly 75% of all US workers.

Opponents like Summers and Senate Republicans will argue the $170 billion is too much and should be reduced. It’s really money not needed for schools costs of reopening. It’s really money Democrats want to push to local government—a source for which Republicans and Mitch McConnell have vowed not to allow funds since last June 2020. Anything appearing to help fund state and local governments will be opposed in their push back, and there's a lot of that money in the $1.9T in various forms of funding.

The other big target in this $400 billion is the above $70B for emergency leave pay for anyone earning less than $73K per year. Even though the money will be paid to employers to offset the costs of the paid leave, it will be attacked by conservatives and corporate Democrats, like Senator Mnuchin, in West Virginia and other corporate interests in Congress. Again, a main reason is its extension to federal and state-local government workers. They also don't like the fact Biden's ARP expands paid leave well beyond the minimal provision in the March 2020 Cares Act. That Act exempted big corporations with more than 500 workers from providing paid leave, as well as very small businesses with fewer than 50 workers. Now the measure covers all workers impacted by Covid who have to care for sick family members, or fill in for child care closings, or leave their jobs to provide schooling at home for their K-6 children, or have to quarantine themselves. Equally important, business interests fear the long term effect of providing such leave. They fear it will legitimize more permanent paid leave in future legislation. Better not to allow the precedent now, rather than fight it later.

Other proposals in the $400 Billion will be more difficult for corporate interests to roll back. The remainder of the roughly $160 billion (after $170B for school reopening and $70B for emergency paid leave) goes to a national vaccination program ($20B), testing ($50B), the Disaster Relief fund to replenish stocks of Personal Protective Equipment (PPE), pandemic supplies like developing more therapies. A further amount, not specified, is allocated to International Health Groups (presumably WHO) which conservatives will fight to remove. There's also calls for OSHA to issue Covid protection standards and grants to organizations that implement them that Congressional Republicans will likely also oppose.

A second major category of ARP spending is called Direct Family Relief. It allocates $1 trillion more in spending in addition to the $400 billion for Covid, Schools, and Paid Leave. Here the opposition will be intense, centered around the $1400 checks per person to help working households cover back rents, mortgages, keep the utilities on, and, most important for tens of millions now to provide food for their families. Biden's ARP also extends the checks to adult dependents of households who were left out of the Cares Act 2020 $1200 check disbursement. The checks are a large cost item, amounting to $464 billion (for $2,000 which includes the $600 recently authorized this past December). Here the Republicans will argue it's 'deficit busting'.

Yet these are the same Republicans and corporate Democrats who quickly approved $650 billion in deficit busting tax cuts for businesses and investors in the March 2020 Cares Act. Then approved another $100 billion more in the December 2020 Defense Bill. Not to mention their approval of $429 bill in tax loopholes in 2019 for investors and corporations, which followed Trump's notorious $4 trillion January 2018 business-investor tax cuts. In other words, they had no problem passing more than $5 trillion in tax cuts the past two years but now they're crying wolf over spending for working families, students, renters, and local governments approaching bankruptcy.

Part 2: $1 Trillion Direct Family Relief Proposals

Another major element of the $1 trillion proposed for Direct Family Relief is the restoration of unemployment benefits. This is the $300/week supplemental unemployment benefits just passed in December in the $900B emergency 'mitigation' Act. Biden's ARP raises it a modest $100, to $400. The December 2020 bill, however, provided the extra benefits only until March, a mere 11 weeks after its authorization in December. Biden's ARP extends that to December 31, 2021. It's important to remember, however, this is not a net new stimulus but a continuation of prior spending. It may help prevent a further slowing of consumer spending and its effect on the economy, but it will not constitute a 'stimulus', or net new spending. Nevertheless, Corporate interests in Congress will argue it should not be extended through next December. They may agree to a few more months this spring, past March, instead. They'll argue that will save hundreds of billions of $ as deficits to the US budget this year.

Other proposals within the $1 trillion for Direct Family Relief are subject to reduction in amount of spending most likely. That includes the additional $35 billion for rent and mortgage relief; the $13 billion more for SNAP and food assistance; and the $40B for assistance to child care providers and for assistance to families of essential workers, caregivers, unemployed, and women who had to leave the labor force to care for children schooling. Like creating a precedent for paid leave, Republicans and others will fight to reduce the ARP Child Care funding out of concern it will legitimize more permanent spending in these areas later.

One area that opponents won't likely try to reduce is the further $20 billion allocated in this category to Veterans Health needs. Nor probably the provisions that subsidize COBRA health insurance payments for 3 million workers forced to leave their jobs due to Covid. These payments will ultimately get into the hands of the employers and their health insurance companies, so that'll be ok with the Republicans and friends no doubt.

The remainder of the $1 trillion takes the form of small funding increases for cash assistance for women on welfare ($1B for TANF program), for substance abuse ($4B), and for programs to address domestic violence due to Covid family stress. While the amounts are small, the idea of providing more funds for such programs will be viewed as adding non-Covid crisis related 'wish list' Democrat spending to the total ARP.

The $1 trillion also includes four tax cutting measures that impact working family households in particular: funds to help essential workers, caregivers, and jobless to pay for child care expenses; funds to expand for one year the child care tax credit for households that would allow a tax credit up to half the cost of child care expenses for each child under 13 years old, up to $4k per child (max $8K); an increase in the general child tax credit up to $3.6k per child including now children up to 17 yrs old; and increases in the Earned Income Tax Credit (EITC) for child-less adults, from $530 to $1,500 for those with incomes up to $21k per year. While the total cost of these 4 consumer focused tax cuts is not exactly known, the idea of raising tax credits for families will be viewed by conservatives as threatening their business and investor tax credits. They will oppose these four measures or, in exchange, demand a further increase in their business-investor existing tax credits.

Finally, there is another element in the call to spend $1 trillion that opponents will fight against tooth and nail. It's the proposal to raise the federal minimum wage to $15 an hour. And the call to pay essential workers retroactive hazard pay. Neither of these proposals contribute to the cost of the $1.9 trillion, their actual costs unknown at this point. Nor are they probably serious proposals for passage by Biden and the Democrats. They will almost certainly be withdrawn. At best they may constitute 'markers' for where future legislation may go. It will be important for opposing politicians to get Biden and the Democrats to drop these ideas from negotiations quickly, which most likely they will.

Part 3: $440 Billion Struggling Communities Support Proposals

The third major category of Biden's $1.9T ARP is for 'Struggling Communities Support'. It calls for another $440 billion in spending—in addition to the $1 trillion and $400 billion noted.

Just as in the case of the $1,400 Checks, Unemployment Benefits extension, Schools Reopening and Emergency Paid Leave costs, the $440B in part 3 of Biden's ARP targeting communities will be among the main targets attacked by conservative, Republican, and corporate lobbying interests. The big target for rollback will be the $350 billion of the $440 billion allocated for an emergency fund to state and local governments to pay for more 1st responders and essential workers needed immediately to attack the spread of Covid and accelerate the vaccination of millions before much feared new and more infectious strains of the virus accelerate among the population. These funds are targeted to ensure faster vaccine distribution, more serious testing, help school reopenings, and to provide EDA grants to local governments, higher education institutions, churches and non-profits. In addition to the $350 billion, additional $20B each is earmarked for local public transport needed to keep essential workers in big cities are able to get to work and for pandemic response costs by tribal governments.

Opponents will see this as just another way to get money to state and local governments. They'll argue there's already funds in the $400 billion for Covid response and the $350B is duplicative. The same argument will be levied for the $20B for local transportation support.

Ever since Mitch McConnell made funds for state and local government the 'bete noir' of stimulus spending proposals, Republicans in particular have been adamantly against any aid whatsoever to such local governments. They've preferred that States and big cities go to the municipal bond market and borrow more if they need it instead. In other words, let the blue states and big cities get more in debt than they already are. Let them lay off public workers more. The McConnell strategy was to let those states and cities suffer and make them turn on their Democrat politicians. This political bias and prejudice is not gone in the US Senate. It is led by McConnell, with the Senator Paul Rand 'deficit hawks' faction of around 20. That critical mass is likely to succeed in rolling back most, if not all, the provisions in the $1.9T ARP proposals associated with providing aid to states, cities, local agencies, and tribal governments.

The amounts related to state-local government assistance in the $1.9T are probably around $500 billion of the $1.9T. So the fight over them in Congress once Biden's proposals hit the floor will be intense. And likely drawn out. And that is bad for getting government spending and stimulus into the economy promptly in order to offset the likely decline continuing in consumer spending, especially in the first quarter of 2021 when it is desperately needed.

The fight in Congress over the $1.9T stimulus could actually be a long, drawn out affair—unless the Democrats and Biden want to retreat quickly on key provisions to get some kind of an agreement. That is quite possible, especially if the economy continues to deteriorate noticeably in the first quarter. If Biden and friends do not reduce their $1.9T, the actual economic stimulus effect will be delayed and with it the economic stimulus effect. And if the $1.9T is significantly reduced, that too will reduce the economic stimulus effect.

Some commentary is already arguing that the Democrats in the Senate can bypass the Republican opposition and quickly pass the $1.9T by reverting to what's called the 'Budget Reconciliation' rule. This allows the passage of legislation by a simple majority instead of the Senate's otherwise archaic 60 votes rule for passage. But Democrats have a 50-50, with the Vice President voting for a 51-50 outcome. That assumes, however, that all 50 Democrat Senators will vote in support. There are a number of them, however, who are closer to Republicans in their corporate affinities than to their Democrat colleagues. It is no guarantee that a budget reconciliation strategy will succeed.

Part 4: Modernize US Government Technology & CyberSecurity

A final part 4 of Biden's $1.9T 'American Rescue Plan' addresses spending to upgrade and improve federal government use of technology, especially where cybersecurity is involved. Amounting to a couple tens of billions of dollars and the remainder of the $1.9T it is clearly an 'add on' unrelated to the Covid, Family, and Community Relief proposals. It is more a matter of infrastructure spending which Biden promises will come in a subsequent set of proposals for government spending and investment later this spring. Republicans and opponents of the ARP will no doubt argue such and move to have it considered in that later legislation.

Based on the preceding possibilities it's reasonable to assume as much as $500 billion could be cut by Congress once conservatives, Republicans, and Corporate Democrats in the Senate get their claws into the $1.9 trillion package. What remains moreover will almost certainly be delayed well beyond February. In short, very little of the ARP will come in time to slow the US economy's current first quarter trajectory.

Addendum: What's Actually Net Stimulus in the $1.9T

Apart from the Congressional cuts likely coming, there are still other reasons why the $1.9T impact will not be the full $1.9T.

A good part of the $1.9T is not really net new or additional economic stimulus in the first place. A significant part of the $1.9T represents just a continuation of prior spending levels. At best it can serve to help mitigate an even more serious economic slowdown.

For example, the unemployment benefits in the ARP don't kick in until after March and just represent a continuation of the benefit spending levels. The extension continues until the end of 2021. That's probably around $300 billion of the $1.9 trillion. Then there's the four consumer tax credits. That effect won't be felt until households filing their 2020 taxes start to get tax refunds. Those refunds will be late this year. Households will wait until the passage of the ARP before they file tax returns in order to see if in fact they can claim the tax credits and get the refunds reflecting them. Refunds will not flow into households until later this year as a result, especially if the passage of the ARP Act is delayed in Congress. That could amount to another $100B or more.

So the actual stimulus effect of the ARP might be as little as half the $1.9T. $500 billion cut by Congress. Another $300B that's just continuation of benefits. $166B that will have already entered the economy as the initial $600 checks. And $100-$150B in consumer tax credits.

In short, the actual stimulus to the economy could amount to barely $1 Trillion, not to

Biden's announced $1.9T.

Will that be sufficient to generate a sustained economic recovery in 2021. Not even close!

Biden and the Democrats are thus confronted with making the same error that the Obama administration did in early 2009—not providing a sufficient fiscal stimulus to generate a sustained recovery. Having failed in that objective in 2009-10, Obama turned to even more tax cuts for business. That did little to reverse the recession for tens of millions of working families and small businesses in the US. The direct consequence of that was the Democrats severe loss of members in the US House of Representatives in the mid-term election in November 2010. And then the loss of the US Senate. And that led to policies that fueled the discontent and rise of opposition throughout the US to Democrat government—paving the way for Donald Trump.

Biden and the Democrats don't even have the same time in which to prevent the repeat of the last decade. They must turn the economy around quickly. They must put the Covid threat to bed by this summer 2021. They must somehow neutralize Trump, Trumpism and the proto-fascist radical right that is not going away the next four years. They must address the growing discontent with institutional racism. And they better hope that all this doesn't eventually lead to a recurrence of a financial crisis—as debt loads accelerate in the private sector in 2021 due to a slow recovery and in turn lead to defaults and bankruptcies that precipitate a new financial instability event!

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