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U.S Economy Sliding, Double Dip Recession Looms: Congress Passes the $900 Billion Mitigation 2.0 Bill

By Dr. Jack Rasmus
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Jack Rasmus 21 December 2020

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As the 2020 year closes, Congress is about to pass a $900B Covid Relief spending bill. But make no mistake. It's Senate leader Mitch McConnell's proposal. And it will hardly dent the rapidly slowing US economy this 4th quarter and the increasingly forecasted coming double dip recession early next year.

The new spending shouldn't be confused as a 'stimulus' bill. It won't stimulate the economy much, if at all. A stimulus requires significant net new spending. Most of the deal is just a continuation of past spending levels, and in some notable examples it's a reduction in spending levels. The same can be said for the companion legislation to keep the US federal government funded. That's another $1.4 trillion. But that too is just continuation spending. Nevertheless, we hear from the mainstream media it's a $2.3 trillion total spending package, the second largest in US history (the first largest being the past March Cares Act which the same media keeps misrepresenting as a $3 trillion package).

For the record, the $3T Cares Act amounted only to $1.4 trillion actual spending that got into the US economy. More than $1 trillion in loans initially earmarked for medium and large corporations, and 11 financial markets, never got spent by the Federal Reserve. In addition, $650 billion of the $3T was actually tax cuts for investors and businesses. That's mostly been hoarded. The only actual spending that got into the real economy and GDP was the $500 billion for income checks and unemployment benefits for workers, plus $525 billion in loans and grants for 5 million of the 31.7 million US small businesses, plus another $100B or so to the Federal Reserve's 'Main St.' lending programs and less than $100B for other Fed lending. So the much touted March Cares Act actual spending was less than half the media's reported $3T.

It's Mitch McConnell's Bill

Since the passage of the Cares Act in March (with a supplement in April), McConnell has insisted a follow up package would be no more than $500 billion. That's been his position since last June. The Pelosi-Shumer team passed a $3.2 trillion true stimulus proposal in the US House called the Heroes Act in late May. McConnell rejected it out of hand and has done so for the past six months.

Pelosi-Shumer reduced their $3.2 trillion to $2.2 trillion in August. That too was rejected by McConnell and the Trump administration, who have been engaged in a phony tactical 'hard cop/soft cop' negotiation since July designed to break down the Democrats' proposals. They have finally succeeded in the $900 billion deal about to be signed. The Democrats, as they guessed, finally capitulated at the 11th hour.

Here's why the $900B is McConnell's proposal: It amounts to the $500 billion he insisted on since last June plus the $435 billion that Treasury Secretary, Mnuchin, clawed back from the Federal Reserve earlier this month. That's the roughly $900 billion that McConnell has agreed to.

The $435B clawed back from the Fed was money the Democrats agreed to in the March Cares Act to be given to the Fed to loan out to medium and big corps, theoretically to companies that would invest it and expand production and hiring. It didn't happen. Big corporations in particular didn't want the money from the Fed and its banks. They were already flush with cash. In terms of corporate bonds alone, Fortune 500 corporations alone had raised more than $2.2 trillion—thanks to the Fed's other policy of reducing interest rates (and bond rates) to near zero.

So the money parked with the Fed in March was never used, and Mnuchin simply took it back earlier this month, gave it to McConnell, which the latter added to his $500 billion. And there you have it. Voila! The $900B forthcoming deal.

The McConnell package

- $325 billion for small business grants ($135 billion of which was left over from March)
- $166B in $600 one time income checks (cut by half from $1200) for working families with incomes less than $100k/year
- $120B in $300/wk. unemployment benefits (for 90 days, & at half former $600/wk)
- $45B for transport (including $15B for airlines already sitting on $billions of cash)
- $13B for food stamps (despite 20% American families now officially food deprived)
- $25B for rent assistance (for one month moratorium on rent evictions for 11.4 million behind on their rents owed totaling more than $70 billion)
- The rest for schools, vaccine distribution, hospitals, and other spending

The reduction in the level of the unemployment benefits and the one time income checks represents at least $150B to $200B a month, every month, taken out of previous levels of household spending. That's not counting its 'multiplier effect'. That's a hundreds of billions of dollars of reduction in consumer spending and therefore US GDP that will hit the economy come January!

Just maintaining prior levels of spending has already resulted in a rapidly slowing US economy this fourth quarter 2020.

US Economy Sliding into Double Dip

After having collapsed quarter to quarter by -10.5% in early 2020, the economy briefly rebounded in part as the economy prematurely reopened in the third quarter 2020. That was a 7.4% rebound off the -10.5% collapse. In other words, only 2/3 of what was lost in GDP terms. But that tepid rebound (not to be confused with a sustained recovery) has relapsed seriously this current 4th quarter. Many economists' estimates, even mainstreamers, is the US GDP will grow at best around 1.5% this quarter—i.e. down from 7.4%.

Retail sales turned slightly negative in October and then sharply fell by -1.1% for the recent month of November. It will likely turn even more negative in December. Even the much announced gains in Manufacturing and Construction—together barely 20% of the economy—are now showing signs of slowing. Indicators of industrial production and manufacturing in the Chicago area and Mid-Atlantic states are slowing sharply.

More economists are forecasting a broad economic contraction—i.e. a technical double dip recession—in the coming January-March period. That includes JP Morgan bank's research. A condition that this writer predicted last March when the economic crisis emerged. As in all cases of Great Recessions, double dips typically occur, and sometimes triple dips. The 2020 Great Recession 2.0 today is no exception.

It is in this context of a sharply slowing US economy fourth quarter, and a growing likelihood of a second bona fide contraction in early 2021, that Congress is about to pass the $900 billion McConnell package.

It's important to understand that it's not at all an economic stimulus proposal. It's the weakest of possible 'mitigation' bills. Mitigation is about just buying time (30-90 days) until a real stimulus can be passed. Even the Cares Act of last March was acknowledged as a mitigation measure, not a stimulus, bill by its Congressional proponents.

This McConnell $900B proposal is even less a mitigation measure. It's more a temporary palliative at best, buying 60 days of a partial offset to a coming contraction.

Moreover, one should not assume all the $900B—or even a part of it—will actually get in to the real US economy. Apart from the reduction in unemployment benefit levels, not all of the $325B money earmarked for small business PPP will be spent soon, or even at all. Studies and research shows that the PPP program of last March did not all go to those small businesses that needed it most. And much of it was used not to retain workers and wages, as the legislation proposed in March, but went to pay down business debt or was used to increase business savings that were subsequently then stuffed into business bank accounts by those businesses that scammed and skimmed off the PPP funding.

With virtually no oversight in the case of the $525B PPP from last March's Cares Act having occurred over the past nine months, it will be significant if even half of the $325 billion is actually spent. The same can be said for much of the $44B now allocated for the airlines and other transport businesses. And even in the case of the $82B targeted for schools and colleges. It won't all be actually spent and therefore will provide no actual stimulus or mitigation to the real economy.

In short, out of the $900B will be 2/3 at best actually spent and entering the US economy and GDP next quarter. That's not much of even a 'mitigation', given the accelerating slowdown of the US economy at year's end 2020 now underway.

The Corporate Democrats' Spin is In

Nevertheless, Democrat party leaders—i.e. the corporate wing of that party—are spinning the capitulation to McConnell as just the first of further coming legislation after Biden is inaugurated January 20, 2021. That's how they're selling it to John Q. Public.

But don't expect much in terms of fiscal spending legislation forthcoming after January 2021. That's especially true if McConnell remains in control of the Senate, which is more likely than not, and it’s especially the case if Republicans win at least one of the Georgia Senate run off elections on January 5, 2021. McConnell will continue to say ‘No No No’ to just about everything proposed in Congress should he retain control of the Senate.

Democrats are naïve to think that, after having agreed to $900B, that McConnell after only 45 days will agree to anything more in terms of emergency fiscal spending come February-March 2021!

In this scenario, as the US economy likely slips into a double dip recession next year Biden will be relegated to any new spending via Executive Order and other presidential actions. But his already announced policy of resurrecting bipartisanship with McConnell will ensure Biden will go slow, if go at all, in terms of governing by Executive Order. He could do a lot, but he won’t. He’ll extend the bipartisan hand to McConnell again, as had Obama for years; and again the Republican dog will bite the hand and little will change.

In summary, what we have in the pending $900B ‘relief bill’ is virtually no relief at all. Even for the next 90 days; it’s a partial relief, a palliative that barely even qualifies as a mitigation. The $900B will definitely not turn around the impetus and trajectory of a rapidly slowing US economy and the likely coming double dip recession approaching in 2021.

But what’s to worry? The stock markets are hitting records daily. Money from the Fed for investing by corporations, hedge funds, private equity firms, and other professional speculators is virtually free. More business tax cuts are being added in the pending legislation to the $650B passed last March in the Cares Act (and the $4T passed before that in 2018-19). The 651 US billionaires added $1T to their wealth in just the last eight months!

Besides, Trump’s leaving the White House…maybe! (if he doesn’t declare martial law first).

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Jack Rasmus is author of ’The Scourge of Neoliberalism: US Economic Policy from Reagan to Trump, Clarity Press, January 2020. He blogs at jackrasmus.com and hosts the weekly radio show, Alternative Visions on the Progressive Radio Network on Fridays at 2pm est. His twitter handle is @drjackrasmus.