

Trump Scuttles a Fiscal Stimulus-Again!

By [Dr. Jack Rasmus](#)

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This past Tuesday, October 6, Trump pulled the plug once again—a second time—on negotiations on a fiscal stimulus between House speaker, Pelosi, and his Treasury Secretary, Steve Mnuchin.

This past week Pelosi and Mnuchin had reportedly been quietly negotiating toward a compromise fiscal stimulus package and were making progress while Trump was in the hospital with his Covid infection. But as soon as Trump returned to the White House, one of his first moves Trump was to scuttle the negotiations. On Tuesday, October 6, he dramatically declared the negotiations were over. Furthermore, he added, there would be no stimulus until sometime after the November elections.

This was not the first time House speaker, Pelosi, and Mnuchin were growing closer to a deal and Trump abruptly intervened unexpectedly and scuttled it.

In an almost identical event earlier this past August Trump intervened and declared the negotiations over. Negotiating with Mnuchin in July and early August, Pelosi had reduced her original fiscal stimulus package costing \$3.4 trillion—i.e. the Democrats 'Heroes Act' passed way back in late May—to a proposal costing \$2 Trillion. That was a drop of \$1.4 trillion. The Republican position at the time was the Republican Senate's so-called 'Heals Act', with a cost of \$1.5 trillion. Thus the parties were only about \$500 billion apart and a deal looked possible in early August.

But once Pelosi-Shumer cut their offer by \$1.4 trillion, to \$2 trillion, Trump had his lead negotiator, chief of staff Mark Meadows, who had taken over as lead negotiator from Mnuchin, abruptly break off negotiations and walk out. That was done without making a counter-offer to Pelosi. In bargaining parlance, Trump had thus 'sandbagged' Pelosi with a cheap bargaining trick: namely, get your opponent to make a major move, then instead of countering, break off negotiations altogether. Should negotiations ever resume, your opponent then has to make a second move and concession while you consider only one.

In less than 24 hours after breaking off negotiations in early August, Trump quickly announced his four Executive Orders (EOs). That overnight response strongly suggests Trump had pre-planned to scuttle the August negotiations and had his four Executive Orders already in his pocket, ready to go. It was planned well in advance with the intent of Trump personally taking over the bargaining agenda and to deny Pelosi-Shumer any credit for any eventual stimulus.

Trump's Executive Orders were largely smoke and mirrors. Clearly Trump wanted to be identified with the public as the guy who delivered the stimulus, and no one else—especially Pelosi and the Democrats. There would be no shared responsibility for delivering the stimulus benefits.

Here's why Trump's August EOs were more smoke and mirrors:

The first Executive Order recommendation that governors could, if they wished, extend the moratorium on rent evictions that was contained in the March 2020 Cares Act passed by Congress. Trump's EO did not provide for a continuation of a moratorium; just a recommendation, and only if a governor wanted. And few would subsequently prove they wanted.

Trump's second August EO provided a supplemental unemployment benefit of \$300 a week, to replace the \$600/wk. benefit that expired at the end of July. That \$600 expiration meant \$65 billion a month in income for consumption by households was taken out of the economy, in August and every month thereafter. In fact, when a standard fiscal multiplier effect is applied, it reduced potential GDP spending by \$130 billion a month. With few states offering even half of that, the US economy lost nearly \$100 billion a month, every month, in spending with Trump's first EO.

But there was more 'smoke'. Trump's \$300/wk. substitution benefit would apply only if a state threw in another \$100. Many state unemployment benefit funds were broke or near busted and many states could not afford the \$100, so their workers never got the \$300.

More interesting still, the funding for the \$300 was taken from the fund for disaster relief, which had only \$50 billion or so in it. So the \$300 was a transfer of funds—from the disaster relief fund to unemployment benefits. That offered no net fiscal stimulus to the economy. At only \$50 billion, the fund was exhausted anyway in just six weeks, by mid-September. By October, moreover, the western fires season reached record levels and while southeast coast hurricane season recorded more hurricanes than there were names from letters of the available. But the disaster relief fund was now depleted as well as the six weeks of \$300!

An even greater 'bag of policy worms' was Trump's third EO. It called for a cut in workers' payroll tax for social security and Medicare. Apart from the unconstitutionality of the Executive branch of government introducing a tax measure unilaterally—when such tax legislation may only arise in the US House of Representatives per the US Constitution—Trump's payroll tax cut EO was not really a tax cut. It was a payroll tax deferral. (Note that business's share of the payroll tax was already deferred to the end of 2021 by the March Cares Act). So workers, like businesses, have to pay double payroll taxes sometime in 2021 according to Trump's payroll tax EO. Given that businesses are legally responsible for collecting and distributing workers' share of the payroll tax to government, many businesses complained if they didn't collect the payroll tax cut legally they might be liable for paying for both deferrals in 2021—i.e. their deferred tax share and their workers' deferred tax. So many have since decided to not cut their workers payroll tax. To this date, little research is available summarizing how much payroll taxes for workers have actually been cut.

But Trump could and did still claim publicly during when campaigning in blue collar states that he's cutting their taxes—not just deferring them. Most will not realize they will eventually have to pay double payroll taxes in 2021. When questioned about this possibility, Trump has replied he would later make the payroll tax deferral permanent, if he were re-elected. But that's not likely without Congress approval (which is highly unlikely) and even more unlikely if he's not elected.

The payroll tax EO is also an insidious way of undermining social security and Medicare—one of Trump's, and Republicans', major policy objectives: i.e. reduce the revenues necessary to make social security retirement benefits and Medicare payments for retirees in 2021. Then call for massive social security and Medicare benefit cuts to make up the difference.

A fourth EO extended payments by students on their government education debt until the end of December 2020. With record and rising levels of defaults on the \$1.7 trillion current student debt, the extension only recognized the obvious: that debt payments wouldn't be paid for the overwhelming majority of the unemployed anyway.

These four Executive Orders, issued in mid-August, represent Trump's taking over control of the bargaining agenda for the fiscal stimulus. Pelosi-Shumer and company were cleverly set up and then 'punked', as they say. Trump looked like he had the real control over whether a fiscal stimulus would happen or not, and that he alone was powerful enough to deliver any stimulus. It would be his stimulus. The problem was, the four EOs amounted no stimulus at all!

More than a million and a half workers every week, from mid-August to early October, continued to file every week for first time unemployment benefits. As a million and a half applied for benefits for the first time, another million a week, every week, began exhausting the unemployment benefits they had been collecting since March-April. By October more than 20 million workers would be considered long-duration jobless, and thus unlikely to ever get their jobs back. More than 5 million workers dropped out of the labor force, giving up on getting jobs. Another 4.3 million in two paycheck families would have to quit work to manage their K-6 grade children struggling with remote education from home.

Tens of millions of working families would start being evicted from their rents, and hundreds of thousands of lower income family home owners would begin to default and go into foreclosure as well.

Meanwhile, millions of small businesses began go bankrupt by late summer, with millions by year end 2020. According to the National Federation of Independent Businesses (NFIB), a trade association for small businesses, no fewer than 21% of the approximate 30 million small businesses in the US had closed, or would close, in the coming months!

In other words, Trump's feeble four Executive Orders had virtually no positive on the economy by September-October 2020—as jobs, unemployed, rent evictions, foreclosures, business closings all began to deteriorate by late 3rd quarter 2020.

Given these conditions, Pelosi-Shumer and Treasury Secretary, Steve Mnuchin, attempted one last time in early October to try to reach a deal on a stimulus bill before the November 3 elections. Mnuchin reportedly raised his offer from his late July \$1.5 trillion to \$1.6 trillion. Pelosi-Shumer position as of early October was \$2.2 (having raised it slight from \$2 trillion in response to Trump's breaking off negotiations in August after the Democrats reduced their proposals to \$2 trillion). Reportedly as well, however, they again considered \$2 trillion.

With around only \$400-\$500 billion difference in terms of final cost of a fiscal package both parties—Pelosi and Mnuchin—were not so far apart they couldn't reach an agreement. That is, until Trump abruptly intervened again and called off the Pelosi-Mnuchin negotiations.

In early October, as in August previously, the main sticking points to an agreement appeared to be the Democrats' demand to bail out State and Local governments, which were soon to have to layoff hundreds of thousands of public employees due to tax revenue collapse. The Trump-McConnell position has always been to deny any funds for state-local government since, in their view, most would go to the larger 'blue' states. The other sticky qualitative issue was the Republican-Trump demand that businesses be absolved from all liability claims during the pandemic period. Democrats feared this blanket liability exclusion would allow businesses exemption from all liabilities for health and safety of their workers or the local communities in which they did business.

Despite both negotiating parties closing the gap toward a deal, Trump abruptly broke off the negotiations once again, a second time, on October 6 and declared the negotiations dead until after the election.

As in August, Trump again a second time personally took over control of the bargaining agenda on October 6. But by saying 'no further negotiations until after the election' he set off a shit storm of complaints from his business base. The stock markets, which had been hundreds of points up on October 6, after Trump's theatrical return from the hospital to the White House, in late hours tanked hundreds of points into the red after Trump's announcement of no stimulus until after the elections.

So Trump put on his twitter hat after the markets closed and slung out a series of tweets, including retracting his earlier announcement of no new negotiations until after November 3.

But that was not all. Further tweets challenged Pelosi-Shumer to agree to separate bills on the content of the Pelosi-Mnuching talks. He taunted Pelosi to agree to a bill just to bail out the airlines. Another just to provide a second round of \$1,200 income checks. Another to provide more grants for small businesses. And so on. The not so clever intent here was obviously to suck Pelosi and Shumer to break up their package proposal, and negotiate directly with Trump, item by item. But to do so would concede all their bargaining leverage, as they say. Trump would be in a position to cherry pick and agree to the separate provisions he wants, and veto line by line the ones he doesn't. It was evidence that Trump just can't let any one else take credit for a deal. It has to be all his to brag about.

It will be interesting to see if Pelosi and the Democrats fall for Trump's latest bargaining trick. He's proven in the past not to be a trustful good faith bargainer. They enter Trump's latest fools game at their risk!

But regardless whether they fall for Trump's latest trick or not, Trump has once again grabbed control of the bargaining agenda. Whatever comes out of the latest developments, it will appear as if he delivered the deal—not Congress and Mnuchin. Trump's the great negotiator. Knows the 'Art of the Deal'. But that's all Trump. Take the credit always, appear responsible for everything positive, and throw all others under the bus when anything fails! And never, never negotiate in good faith. That's only for "suckers and losers", in Trump parlance.

Like his obviously staged return from the hospital to the White House, Trump is all drama and theater. To borrow a well worn literary phrase, "there's no there there".

But the US economy now more than ever needs a real fiscal stimulus, not phony theater. It

has entered the fourth quarter of 2020 with ominous negative economic signs on the horizon: large corporations are now announcing permanent layoffs (not furloughs) by the tens of thousands. Unemployment claims have begun to clearly rise again. Evictions and foreclosures and business closures are now escalating as well. A second Covid 19 wave is beginning to appear in the US, just as it has in Europe and elsewhere. That will mean more shutdowns, even if only partial. And more reluctance by consumers to spend on services like travel, leisure, hospitality, restaurants, movies, theater, entertainment, shopping at malls, buying gas, sports events, to name but the most obvious.

The combination of no fiscal stimulus and a Covid resurgence is ominous for the US economy. Even more ominous is the growing likelihood of major political instability erupting—institutionally and in the streets—around Trump's oft-stated intent not to recognize the outcome of the November elections should he lose, driven by his unsubstantiated claim of fraudulent mail in ballot voting.

Trump has already begun moving his political chess pieces to challenge the election and refuse to leave office. Teams of his lawyers are filing hundreds of court injunctions against counting mail in ballots, in particular in the swing states. Pro-Trump red state legislators meanwhile are throwing hundreds of thousands of voters off the voting rolls, reducing polling locations in minority neighborhoods, eliminating drop boxes for ballots in some cases to one per city, sending 'observers' to intimidate voters at polling stations. Simultaneously, Mitch McConnell in the Senate is rushing to confirm Trump's latest Supreme Court nominee, to ensure he has a 6-3 safe majority on the Court should it come down to the Supreme Court calling for a halt to counting mail in ballots, especially in swing states that will determine the election; or to legitimize other tactical moves by Trump lawyers trying to prevent mail in ballot vote counting.

A most likely scenario is the following: Trump lawyers in swing states get recent McConnell appointed pro-Trump district and appeals court judges to declare mail in ballots cannot be accurately counted for various reasons. With mail in ballot counting suspended, Trump lawyers then ask Republican controlled state legislators to pick the 'electors' for the electoral college, who would almost certainly vote for Trump. That way the Supreme Court may not have to directly 'select' Trump, as they did with George W. Bush in 2000. But they would indirectly, by enabling the state legislators to select the electors that then select Trump. (This was the way Senators used to be 'elected' before the US Constitution was amended to provide for direct election of Senators).

The more economic, political, and health crises and confusion there is around November 3 and after, the more likely the Courts will defer to the above scenario in the name of restoring social order.

So it just may be that Trump doesn't really want a fiscal stimulus before November 3. Maybe his latest 'line by line' tweets are just that—a delaying tactic.

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Dr. Jack Rasmus writes on his blog site where [this article](#) was originally published. He is a frequent contributor to Global Research.

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