Gutting the Fiscal Stimulus

By Dr. Jack Rasmus
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Jack Rasmus

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Since at least this past spring 2021, it's been clear that the corporate wing of the Democratic party (in basic agreement with McConnell and the Republicans) has been pursuing a strategy of chipping away at fiscal spending proposals promised during the 2020 elections and introduced by Biden upon entering office last January-February.

While most of media attention has focused on the negotiations between Biden's Democrats and McConnell's Republicans in Congress, much less attention has been given to the second set of negotiations–i.e. within the factions of the Democratic party itself and specifically between its corporate wing and its so-called progressives.

Three Fiscal Rescue Plans

There were three fiscal spending initiatives introduced by Biden when he took office in late January 2021: The first was the Covid relief measure called the American Rescue Plan (ARP). It's projected spending was set at $1.9 trillion. However, the amount of authorized spending will be less than $1.9T, according to the Congressional Budget Office (CBO). And even the authorized amount per the CBO will likely get cut over time as arcane Congressional spending rules take effect in 2022 and beyond that put annual limits on spending even what was authorized.

For 2021-22, the CBO's indicates only $1T spending is actually authorized to be spent. But much less than that will be spent due to more than 20 states discontinuing unemployment benefits early, failure of distribution of rent assistance due to landlord resistance, and other early terminations of programs. Unemployment benefits have already ended, stimulus checks were distributed and spent months ago, increases in food stamp benefits expire this month as well, $85 billion in assistance grants to small businesses have been largely made, and $403 billion in funds to state and local governments mostly distributed.

Despite all these distributions, the net economic effects so far this year appear to have dissipated or had little impact on the economic recovery, which shows signs of fading as of September 2021. A much more aggressive fiscal stimulus is needed as a follow on to the ARP which, in retrospect now, appears more like a 'mitigation' fiscal measure than a bona fide ‘stimulus’ measure. The more aggressive fiscal stimulus measures were to be the second and third fiscal ‘plans’ announced by Biden early in the year. These were the Infrastructure spending bill and an initially less well defined ‘Family’ support fiscal spending bill.

The second fiscal spending initiative–the Infrastructure bill–is called the American Jobs Plan (AJP). It was initially intended to spend $2.3 trillion on various traditional as well as new ‘human infrastructure’ initiatives. The latter human infrastructure initiatives, however, were quickly stripped out, leaving only traditional fiscal spending measures on roads, bridges, water, etc. to comprise the what’s called the Infrastructure bill. The stripped out programs were then repackaged into a revision of the third fiscal spending proposal called the ‘Family’ Act, with an initial spending cost of $3.5 trillion.

Over the past summer the $2.3 trillion Infrastructure bill was drastically cut to only $550 billion in actual new spending, to which was appended roughly another $600 billion in previously authorized spending on highways and other. The media and politicians ‘spun’ the already authorized spending as ‘new’ and part of the Infrastructure bill, thus boosting the total to $1.1 trillion or so. Even with the best assumptions, the much reduced net new spending of $550 billion will not get into the US economy until late 2022 and in 2023. So its impact on the slowing recovery today will have no effect whatsoever. The $3.5 trillion ‘catch-all’ human infrastructure proposal (including spending on climate change, medicare, education, etc.) stands even less chance of passage–in this year or next.

So what exists as fiscal stimulus this year is on average only $50 billion a month in government social program spending, in an economy of $2.2 trillion! That’s hardly an economic ‘drop in the bucket’ and won’t move the recovery needle much, if at all. Especially in the final months of 2021 given that nearly all of it has either been spent or discontinued.

Why then is the Biden fiscal stimulus and Covid wracked US economy plan about to fail?

One answer is the three proposals amount to insufficient fiscal stimulus to generate a sustained economic recovery. What remains is just a rebound of the economy as it reopened this summer. And ‘rebounds’ are not ‘sustained recoveries. Fiscal measure #1, the ARP, is already mostly spent or is being discontinued. And the other two fiscal spending proposals are either ‘dead in the water’ in terms of Congressional passage, in worst case scenario, or, should they eventually pass in some form, the magnitudes will be too little too late.

What’s happened the past six months is that the 1st measure, the ARP, was undermined and cut either by Republican states (unemployment benefits early terminations) or by the US Supreme Court (rent moratorium ruled unconstitutional), or inept administration of funds and landlord resistance (rent assistance), or state and local governments sitting on hiring workers with the $400 billion they received from ARP.

The second and third measures (Infrastructure & Family plans) in turn have been sharply reduced or blocked altogether by corporate interests and the corporate wings of both parties, Democrat and Republican alike. This has been evident in the evolution of the Infrastructure bill and negotiations dramatically reducing its projected spending amount from an initial $2.3 trillion to only $550 billion actual new spending. The same sharp reduction in spending is about to occur with the $3.5 trillion Family plan in coming weeks that was witnessed with the evisceration of the $2.3 trillion original Infrastructure bill.

How Corporate Interests Gutted the $2.3 Trillion Infrastructure Bill

This writer warned back in March, as the fight over the $2.3 trillion original infrastructure bill ratcheted up, that corporate interests in the Democratic party would collude with the Republicans to dramatically cut the Infrastructure bill. The $2.3 trillion would be gutted and deeply reduced, leaving it a shell of its original proposals. That of course is exactly what happened. The net new spending both sides agreed would be $550 billion–not $2.3 trillion.

To cover up the nearly $1.8 trillion in cuts, the spin by the corporate wing in both parties was the Infrastructure bill spending was reduced only to $1.1 trillion. But that $1.1 trillion amount was the result of including in the final bill spending on highway and transport previously authorized in legislation passed well before Biden's original infrastructure proposals. The actual new spending thus was only $550 billion.

The reduction of $1.8 trillion made it possible to fund the final $550 billion new money Infrastructure bill by means of 'smoke and mirrors' and thus avoid raising taxes on corporations and investors, which the original $2.3 trillion would have required. And that's the crux of all the reductions in the three fiscal spending proposals. Neither the Republicans nor the corporate wing of the Democratic party want to spend big on social programs because it will mean taxes will have to be raised on corporations and investors in order to pay for the programs. And they don't want to raise taxes–which means reverse some of the $4.5 trillion in Trump tax cuts passed in 2017-18.

Avoiding raising taxes has been, and remains, the number one objective of corporate interests in both the Democratic and Republican parties. They got their way with Biden's Infrastructure bill. None of the Trump tax cuts were reversed. The Infrastructure bill is to be paid for by 'smoke and mirrors' measures but not taxes.

Now corporate wings in both parties are intent on doing the same with the $3.5 Trillion 'human' infrastructure/climate change/healthcare reform bill (aka the de facto Sanders bill). The corporate goal once again is to prevent funding via taxes.

There were always two negotiations underway simultaneously as Biden's original $2.3 trillion Infrastructure bill was reduced to $550 billion: one negotiating track in which Biden, in the name of 'bipartisanship, made concession after concession to McConnell in order to get Republican support to pass the Infrastructure bill without having to end the filibuster or do a budget reconciliation; the other track was the negotiation within the Democratic Party itself over the size and scope of the original Infrastructure proposal as well.

The internal negotiation was led by Senators Manchin and Senema, who were point persons for the corporate wing of their party that was, like the Republicans, intent on paring down the spending on infrastructure.

In the end the Democrats' corporate wing prevailed: the original $2.3 trillion infrastructure bill was cut to only $550 billion in actual new spending. That was the Republican position all along. McConnell and Republicans got their way: no actual tax hikes (meaning no cuts to Trump's massive $4.5 trillion 2017 tax cuts). And the Democrat corporate wing got its way as well which was the same objective of no corporate or investor tax hikes. Corporate interests in both parties wanted the same and they got it: reduce the spending enough to avoid raising taxes.

How Corporate Interests Will do the Same with the $3.5 Trillion

Manchin and Senema were leading the charge to reduce spending on infrastructure, and were there to serve as 'cover' for the corporate wing. It appeared as if Manchin-Senema were responsible for the slashing of the infrastructure bill from its original $2.3 trillion to $550 billion. However, the negotiations within the Democratic party were really corporate interests vs. the progressives. Manchin-Senema were the corporate wing's 'stalking horses'.

Clearly aligned with the broader corporate interests in his party, and not the progressives, Biden gladly cut out much of his original Infrastructure $2.3 trillion. To placate the progressives in the party (Sanders, Warren, etc.), he agreed to shift most of the cuts to a new, repackaged family human infrastructure bill. That's the $3.5 trillion now on the table. Sanders was satisfied with the move.

So too were Pelosi and the House Progressives. The progressives in the House were placated with Pelosi declaring the two fiscal bills would have to be voted on together: the $550B in new spending on infrastructure and whatever amount resulted of the $3.5 trillion Family bill after negotiations gutted it as well–as shall be evident in the coming weeks.

The same process of gutting the Infrastructure bill that occurred in the Senate will now be replicated with the $3.5 trillion human infrastructure bill; namely, the $3.5T will be reduced in stages in both the House and Senate until corporate interests in both the Democratic and Republican parties are satisfied the final funding will not require big tax hikes.

In fact, the slashing the $3.5T has already begun. Early last week Joe Manchin called for a 'pause' in negotiations on the $3.5T saying it was too large for him to support. That formulation signaled he might accept it but not in its present form or size. Yesterday Manchin followed up saying the $3.5T should be reduced to no more than $1.5 trillion over ten years.

It what looks like a nicely coordinated initial position by corporate party interests in the House, Manchin was quickly followed by Jim Clyburn, a power broker in the House, who just declared the $3.5T should be considered only a 'wish list' and just a start point for negotiations. In other words, let's negotiate down from there.

So here we go: just as occurred in the Senate with the original $2.3 trillion traditional Infrastructure bill, the $3.5T human infrastructure/family bill will be slashed in stages in coming weeks, in a nicely choreographed effort by Democratic party corporate interests in the Senate and the House.

McConnell and Republicans will look on with a big smile on their face, nodding their heads, silently urging their corporate cousins in the Democratic party to do their work for them again, and bring them a bill that requires no rollback of Trump's $4.5 trillion massive 2017 tax cuts.

Meanwhile, what existed of fiscal stimulus this past spring is quickly dissipating. Consumer and retail spending continue to weaken, as unemployment benefits are cut, rent assistance is blocked, employers pull back on job hiring, distribution of funds by state and local governments are hoarded, supply chain bottlenecks globally continue, most of Asia is slipping into recession, business price gouging continues to push up inflation, and the Covid delta wave accelerates.

But hey, what the hell. It’s not all bad. The stock market keeps hitting records. Corporations plan to distribute a record $1.5 trillion this year in stock buybacks and dividend payouts to their shareholders. Corporate spending on global mergers and acquisitions is projected to hit record levels. And the Federal Reserve keeps the financial bubbles going with its $120 billion a month QE free money to bankers and investors.

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***Dr. Jack Rasmus** is a frequent contributor to Global Research.*

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