

The 2020 Great Recession 2.0: The 'On Again, Off Again' U.S. Fiscal Stimulus Negotiations

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It's been more than three months since the March-April economic rescue package, called the Cares Act, expired at the end of July. Since then both political parties, Republican and Democrat, have played a 'hot potato' bargaining game: i.e. "here's my offer, the ball's in your court...Here's mine, now it's your turn". This week the game continues, showing no indication of ending.

Last March's 'CARES ACT' was not a fiscal stimulus. It was instead about 'mitigation'-meaning the various measures contained in that \$2.3 trillion package (actually nearly \$3T when the additional \$650 billion in business-investor tax cuts are added to the Act) were designed only to put a floor under the collapsing US economy-not to generate a sustained economic recovery. Even the politicians voting for it publicly acknowledged at the time that it was not a stimulus bill, but rather a set of measures designed to buy time-no more than 10-12 weeks at most-until a more serious economic recovery Act could be implemented.

The real fiscal stimulus bill was to follow, designed to pick the economy up off the floor and generate a sustained recovery as the economy reopened. The reopening began in May and gained a little momentum over the summer. But not enough to generate a sustained recovery by itself that was expected by late summer.

In a typical Great Recession trajectory, the reopening over the summer resulted in a roughly two-thirds recovery of lost economic activity by end of July. It was thought by politicians and mainstream economists that, when the reopening crested at two-thirds in July, a subsequent real stimulus bill would follow. The two forces-reopening and fiscal stimulus-would together generate a sustained recovery.

But it just didn't happen that way. Nor is it to date.

The Democrats in the US House of Representatives presented their version of a fiscal stimulus bill-called the HEROES ACT-in late May. But the Trump administration and the McConnell led Republican majority in the US Senate balked at joining in passing a stimulus bill.

McConnell & friends looked around and it appeared big business and corporations and banks were doing just fine by June-even if small business and working households were not. A few exceptions to big business doing well were the airlines, hotels and some leisure and hospitality industries. But banks and other big corporations were fat with cash. The Federal Reserve had already pumped nearly \$3 trillion in virtually free money into the banks. And big corporations had raised trillions of dollars more by selling corporate bonds at record

historical levels, at cheapest rates, also made possible by the Federal Reserve. Trillions more were hoarded by borrowing down their credit lines with banks, saving on facilities operations, and temporarily suspending dividends and stock buybacks.

McConnell, Trump and their business constituencies didn't need more stimulus. Indeed, they didn't even need the Cares Act even. That Act, passed in March, included among its provisions no less than \$1.1 trillion in loans for medium and large businesses, along with \$650B in tax cuts for the same. But as of this past August, less than \$150 billion of that \$1.1 trillion had actually been borrowed by big businesses and spent into the economy, and it appears little of the tax cuts resulted in production increases or hiring as well.

So in June, McConnell and the Republican Senate simply dug in their heels for two months and simply ignored the Democrat House stimulus proposal in the form of their late May passed \$3.4 trillion HEROES ACT bill.

In July McConnell eventually put forth his proposal, called the 'HEALS Act'. It totaled \$1.5 trillion, but was loaded with ambiguous and onerous language like exempting all businesses from any and all legal claims for negligence for failing to provide safety and health conditions for their workers.

By end of July the only real provisions of the Cares Act that provided any semblance of economic stimulus ran out. That was the \$500 billion in extra unemployment assistance to workers, the \$1200 checks, and the \$670 billion in grants and loans (mostly grants) to small businesses. The unemployment, checks and grants amounted to government spending of only \$1.2 trillion of the Cares Act's \$3 or so trillion. That \$1.2 trillion was, and remains, the only actual spending to hit the economy, since the \$1.1 trillion in loans to large-medium corporations has never been actually 'taken up' and spent into the economy by business. Ditto for the \$650 billion in business tax cuts in the Cares Act. So only a little more than a third of the Cares Act resulted in any economic spending.

That \$1.2 trillion, moreover, amounts to barely 5.5% of US GDP. In GDP percentage terms, that's roughly the size of the 2009 stimulus of \$787 billion spent during the previous Great Recession of 2008-09. That \$787 billion proved insufficient at the time to generate a prompt recovery from that recession. It took six years just to get back to the level of jobs in 2007 before that recession, for example. But today's 2020 Great Recession 2.0 is four times deeper in terms of economic contraction compared to 2008-09. And it's still only an effective 5.5% spending package as contained in the March Cares Act.

A much more aggressive stimulus bill was desperately needed as a follow up as the Cares Act spending ran out at the end of July. The May HEROES ACT was an attempt to provide that follow up actual stimulus but, as noted, McConnell, Trump and Republicans weren't interested. Their banker and big business constituencies were doing quite well by early-summer. No doubt Trump-McConnell further believed the reopening of the economy, as Covid 19 disappeared, would prove sufficient to lead to a sustained economic recovery.

Of course, history has already proven them wrong

By late July many sectors of the US economy began to weaken again. And a second, worse wave of Covid 19 hit the economy in July-August, just as the weak Cares Act spending ran out at the end of July. Unemployment claims began to slowly rise again through August and into September. Small businesses began to closure, many permanently now, in greater

numbers. Large corporations began to announce mass layoffs, more permanent than just furloughs now. Evictions of renters by the millions began to occur. Low income homeowners began to miss mortgage payments. And the much predicted V-shape recovery began to look increasingly like a 'W-shape'.

But instead of seeing the trend, Trump and McConnell doubled down and refused to negotiate seriously with the Democrat House on its HEROES Act proposal. In early August, House Speaker Pelosi, thinking the Trump administration might bargain in good faith, reduced her proposal from the HEROES Act \$3.4 trillion cost to \$1.2 trillion. Instead of following up, however, the Trump negotiators, led by Trump's Staff Secretary, Mark Meadows, abruptly broke off all negotiations-without making a counter offer. What he did leave though was a bad taste in the mouths of Pelosi and Shumer, who now could not trust the Trump team should further negotiations resume. Nor could they trust McConnell and his Republican Senate, who followed Trump and withdrew their prior HEALS ACT \$1.5T and refused to consider anything more than \$650 billion if brought to the Senate by the Trump-Pelosi negotiators in the future.

Trump had set up Pelosi and then 'sandbagged' her, in bargaining parlance. Within 24 hours Trump publicly announced four executive orders as his personal fiscal stimulus offer. But the EOs were no stimulus in fact. Just a diversion of already existing government funds and payroll tax cuts that would have to be repaid in 2021.

Both sides maneuvered in the press thereafter, as the US economy weakened further throughout September and into October-and as the Covid 19 infection rates surged once again. The Virus was not cooperating with economic recovery. And there was no stimulus to assist in that either. Meanwhile, millions more were becoming unemployed-at least 30 to 35 million remained jobless as of mid October. Food deprivation worsened and food lines began emerging again. Rent evictions were now escalating as well. Hundreds of thousands more small businesses were closing their doors, with predictions by the National Federation of Independent Business that millions would fail in coming months-even as bankers, big corporations, and stock and financial markets attained record levels.

Trump then shot himself in the foot by declaring there would be no further negotiations on a stimulus until after the November 3 election. McConnell said that was fine since 20% of his Republicans were against any further stimulus out of concern of its negative impact on the US deficit, which by October hit a record \$3.1 trillion for the 2020 fiscal year-the largest in modern history.

Trump's walking away from any further negotiations hurt his political chances, since not only were workers, renters, and small businesses being 'thrown under the bus', but the announcement had serious negative effects on stock market values. Now big corporations were worried too. So Trump back-tracked and made another bargaining offer.

Which brings us to events of the last 10 days. Trump offered Pelosi-Shumer an \$1.8 trillion counter offer-complete with loophole language permitting him to renege on items of his choice. But it was an offer he couldn't deliver, since McConnell in the Senate quickly added he wouldn't even bring the \$1.8T up for a Senate vote because he couldn't get it passed within his own Republican ranks.

What the \$1.8T did achieve was to get the corporate wing of the Democrat party, including its mainstream media arms-MSNBC, CNN, etc.-to raise the pressure on Pelosi to accept

Trump's phony \$1.8T offer that he couldn't deliver. What Trump wanted, and still wants, is just an announcement of a 'deal' that he can take credit for as he campaigns across the country before the election. What big business wants is the same, an announcement, not necessarily a deal. Stock prices and especially tech sector stocks have begun seriously wavering on news of no stimulus negotiations. An announcement would quell that issue and ensure stock prices remain strong through the election. Even some 'left' Democrats like Rho Khanna and Andrew Yang—both from silicon valley—chimed in and demanded Pelosi accept the Trump offer.

So what happens next, this week? Trump's negotiator, Treasury Secretary Mnuchin and Pelosi have begun to talk yet again. Trump wants to announce a deal before the next presidential debate with Joe Biden this thursday, only 72 hrs away. So it's likely he'll instruct Mnuchin to increase his offer to \$2T or even to Pelosi's \$2.2T. He's got nothing to lose, and he knows McConnell's 'hard cop' is there backing him up to stop (or at least change the terms of any tentative deal) for him. Trump gains a campaign message. McConnell blocks any deal. And Pelosi and the Democrats get nothing once again except more negotiations, now with McConnell. It's a clever 'double-teaming' of the Democrats by the Republicans, once again!

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