

US Senate's Final Stimulus Bill - Why It Won't be Enough

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Global Research, March 25, 2020

Region: [USA](#)

Theme: [Global Economy](#), [Intelligence](#),
[Science and Medicine](#)

Just after midnight March 25, 2020 eastern time the US Senate passed a compromise bill of fiscal spending to address the accelerating economic decline. Both Democrat and Republican Senate leaders agreed on the terms. US House of Representatives Speaker, Nancy Pelosi, indicated she would rush approval of the package seeking a unanimous voice vote of the House.

Here's what the terms of the stimulus package looks like, according to initial summaries by the Washington Post and CNN released within minutes of the bill passage:

Middle class and worker households would get \$500 billion in the form of direct checks (\$250B) and increased unemployment insurance benefits for the next four months (\$250B)

Corporations and businesses would thus get \$867B-\$367B of which would go to small businesses, and another \$500B to large corporations like airlines, defense companies, cruise lines, hotels and other companies.

Additional funding of \$130B would go to hospitals to purchase needed medical supplies. State and Local governments get \$150B. Other funds would be provided by the government's Small Business Administration (\$10B) to help pay their debt. Reference is made in the package as well for another \$20 in farm bailout, raising that total from the \$30B spent to date during the US-China trade war to \$50B. While it appears the \$130B for hospitals and \$150B for local governments is in addition to the \$867B to business and \$500B to households, it's not clear if the \$20B farm bailout and \$10B additional SBA are included in the \$867B or not.

Here's a further detail in breakdown of these amounts:

1. \$500B to Business

The Airlines get their \$58B they've been lobbying for. And if past breakdowns still apply, it means roughly half the \$58B will take the form of outright grants, not loans, to the airlines and the remainder as loans. It is also unclear if the loans will be 'forgiven' after six months, as had been proposed before in past versions of the Senate bill.

Another \$17B of the \$500B is earmarked for defense companies considered important to national security. No details are released who these are and why such companies, not affected by consumer demand, should receive such an increase. (Possibly to back fill money that has been transferred from them by Trump to help pay for his wall).

Trump has also indicated he intends to have some of the \$500B go to cruise lines and hotels which, along with airlines, are critical to his own company's business.

The remainder of the \$500 is designated for spending to support other industries. Whether in the form of loans, grants, or other forms of assistance is still unclear.

2. \$367B to Small Business

The Senate bill always included \$350B in loans for small business, and the provision that the loans would change to outright grants if used to pay wages and payroll costs. It won't take clever accounting to use the \$350 to cover wages and compensation (and payroll taxes, etc.), as companies move the money that would have been used for such purposes to other areas of their income statements. So consider the \$350B as money without repayment—i.e. not a loan.

In addition to the \$350B, another \$17B is added now for small business to cover interest on their existing loans for six months. Finally, there's the \$10B from the Small Business Administration to help pay debts, which may or may not be part of the other totals.

Add in the \$20B for farm support, the \$10B from SBA, and the \$130B to hospitals, it means Business Large & Small thus get \$1,027B in direct assistance by the government in the new agreed on Senate-House stimulus package.

Another item that the Democrats demanded and received in part was to have an Oversight Board to review how corporations and businesses actually spent the government money. In the previous emergency economic recovery legislation in 2009, much of the direct assistance was 'gamed' by businesses that received it. Some even used it to buyback their stock and award bonuses to managers. The Oversight Board is supposed to prevent that. It remains to be seen, however. Who will be chosen to manage the Board will make all the difference. It can be assumed the Senate or Trump will. As Trump has said publicly when asked who will 'oversee' the distribution of the funds to business, he replied "I'll be the oversight".

Middle class families and workers get a total of \$500B under the agreement, which is what it was before. It appears that the money was just 'moved around'.

3. Direct Household Cash Assistance

Talk of \$3,000 per household is now changed to a check of \$1,200 for a single household member, or \$2,400 for married couple, plus \$500 per child. (It's unclear if that's for all children in a family or just up to two).

To qualify for the full \$1,200/\$2,400 an individual must make no more than \$75,000 income annually. Income above \$75,000 phases out until \$99,000 after which no payment is made. For couples, the phase out is at \$199,000 per household.

4. Increased Unemployment Insurance Benefits

The package includes an increase of \$600 to the state's defined level of unemployment benefits paid (that vary by state quite a bit). But it's unclear if the \$600 applies to the highest paid state benefit payment or to all levels of state benefit payments. For example, in California the top payment is \$450/week. The new payment would be \$1,050/week. But will

those below the top payment level also get \$600?

A plus to the unemployment insurance provision is that it will also apply to contingent work: that is, to part time, temp, contract labor not just to full time employed who are laid off due to the effect of the virus on company shutdowns.

On the negative side, all the improvements in unemployment insurance will take effect for only 4 months, then will expire.

It is clear, therefore, that middle class families will receive only the \$500 billion that had been allocated before—in the form of cash assistance one time worth \$250 billion and improved unemployment benefits for four months costing another \$250 billion. It appears some of the cash assistance was redirected toward improvement in unemployment insurance benefits, but no net increase in the total \$500B on the negotiating table before.

In other words, in the final stimulus bill businesses get more than twice as much as do households and the working class!

5. State & Local Governments

An additional \$150 billion is allocated in the bill to assistance to state & local governments.

THE TOTALS:

The totals in spending thus appear to be approximately \$1,650 billion! It is being reported as a \$2T stimulus effect and increase in US GDP overall. AS Trump's advisor, Larry Kudlow, has said on a previous occasion, the \$2T represents the spending plus the 'multiplier effect'. \$2T is not therefore the actual spending. That is less, around the \$1,650T estimated here. The difference is a multiplier effect of about \$400B.

But that's a generous estimate of the multiplier. It's based on normal economic conditions. And the current collapse of the real and financial US economy is anything but normal. The multiplier will be much less. That is because much of the spending by the government, to business and households alike, will be used to pay down debt, hoard the money due to expectations of future profits and employment insecurity, or to cover price gouging by businesses selling necessities.

The US economy spends monthly the equivalent of \$1.7 trillion. The Senate's stimulus package is thus a one month stop-gap at best! As this writer has been arguing in recent days, the stimulus needed to get through the summer will have to be \$4 trillion, not \$1.65 trillion.

The \$2 trillion (spending + multiplier) is estimated at around 9% of US Gross Domestic Product, GDP, at present. A 20% increase of GDP is necessary, raising total government spending in GDP terms from the roughly current 21% of GDP to 40%.

40% of GDP is what the US government raised spending to in 1942, when we went to war at that time. It was an increase from around 15% pre-war. If the fight against the new enemy, the virus, is a kind of 'economic war', then the US will have to mobilize its economy again on a war footing. Trump's activation of the War Production Act, and then doing nothing about it further, is not a war mobilization. Trump is not a 'war president', as he claims. Indeed, he allowed the enemy to actually penetrate our shores and spread amongst us with his delayed

action to stop airline travel and cruise travel. It's not an accident that the largest concentrations of the virus infections are in our coastal ports and airports—Washington state, California, New York, and now increasingly New Orleans, Philadelphia, Chicago and Miami.

Trump as 'War President' & Other Fictions

Unlike our prior war presidents, Roosevelt and Truman, Trump is not mobilizing production and distribution of key resources and supplies to fight the enemy. He simply asks the private sector to do it and then gives his daily 'sales pitches' to the nation press conferences to say what he's doing when he's not actually doing it. War supplies (masks, ventilators, PPE) are promised and promised but are slow to appear, if they ever do.

The question follows then whether the current Senate-House stimulus bill represents a sufficient stimulus to protect the US economy. The answer is no. It's not even half way there for Main St.

In contrast, however, the Federal Reserve US central bank has quickly allocated no less than \$6.2 Trillion so far to bail out the banks and investors, even before they fail this time. And promises to do more if needed and for as long as necessary. It is writing a blank check for the bankers and investors.

Meanwhile Congress provides one-fourth that, and only one third of that one fourth, for the Main St., workers, and middle class families.

Finally, it is clear from Trump's statements in recent days that he knows this stimulus is only a one month hit to the economy. That's why he—and the capitalist investors who have been lobbying him hard the past week—are turning up the message we should all start going back to work by mid-April.

As Trump put it, the timing is 'beautiful', at Easter. But it won't be so beautiful when a surge in infections and death occur on top of the current surge underway occur by early summer.

But profits and money are more important to this wheeler-dealer, commercial property speculator capitalist in the White House. With the US budget deficit this fiscal year almost certainly to exceed \$3 trillion, and his election looming on the horizon, Trump and friends see Wall St. and US business interests as more important than the rising death rate that is inevitable should we return to work prematurely by mid-April. Such action will all but ensure the eventual overwhelming of the US hospital system three months from now, an even higher death rate, and an even greater collapse of the US economy and financial system in the aftermath.

Trump may think he's at war with the coronavirus, but it is the virus that is winning! And his poor generalship is aiding and abetting that enemy. Unfortunately, the American public—and especially the old and infirm—are becoming the 'cannon fodder' in Trump's phony war.

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