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US Unemployed Rising, Evictions, Mortgages Crisis Brewing, Small Business Collapsing: Economic Consequences of a 2nd 'Mitigation' Bill

By Dr. Jack Rasmus
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As of mid-December 2020 the US economy has begun showing increasing signs of an exceptionally weak 4th quarter, October-December, growth. After having collapsed -10.5% in the March-June 2020 period, followed by a partial 'rebound' (not sustained recovery) in the 3rd quarter, July-September 2020, the economy is now slowing rapidly once again.

Dismal reports of consumer and especially retail sales in October-November appear driving the slowing growth—in turn driven by rising unemployment claims, a growing number of permanent layoffs by large businesses as the economy structurally changes long term, and, shorter term, by a sharp rise in Covid deaths, infections, and consequent partial shutdown of the services sector of the US economy throughout the US.

This scenario and trends has pushed more economists, mainstream included, to predict an even sharper 1st quarter 2021, contraction in the economy. Even a normally conservative forecast source like JPM Chase Bank's research has raised the likelihood of a bona fide 2nd contraction of the US economy early next year—i.e. a 'double dip' recession, that this writer has been predicting since last March 2020.

The failure of both parties in Congress to pass a fiscal stimulus bill as late as mid-December 2020 has exacerbated the slowing economy and likelihood of a further contraction.

Ranks of Unemployed Rising; Benefits Falling

Latest initial unemployment benefit claims have risen, from the steady 1 million per week through the fall, to 1.28 million in early December, a weekly rise of 28%. As claims rise, a steady million per week have been exhausting their benefits for months. This is about to accelerate greatly, as a large block of 12 million are scheduled to end benefits by the last week of December.

Despite the US Labor Department's monthly 'low ball' estimates of a jobless total of only 10.5 million and 6.7% unemployment rate, more than 20 million without jobs are still collecting unemployment benefits—twice the number the Labor Department and media consistently repeat as total jobless today!

Simultaneously, the ranks of the jobless without benefits, or having exhausted benefits, continues to rise as well. Four million workers have dropped out of the labor force altogether. Another 1-2 million have had to quit, in order to manage their K-6 grade children's remote education. Millions are 'furloughed' at home with hope of at some point returning to work but not yet—a status the Labor Department erroneously calls working, and not unemployed, even though they aren't being paid by their employers. (An error the Labor Dept. has made since last April, acknowledged it was an error, but has refused to correct nonetheless).

Easily at minimum 25 million American workers today as of December 2020 are jobless, either with or without benefits, not 10.5 million. And the unemployment rate is thus closer to 18%-19%–i.e. not even remotely close to the official, cherry-picked low ball number of 6.7% reported monthly by the Labor Department, which even most mainstream economists now ignore.

The Trump administration allowed the expiration of the supplemental $600/week unemployment benefits for millions of jobless last August. That reduced GDP spending by $65 billion a month (not counting multiplier effects on GDP of roughly 2X that amount). Some of that was restored for 5 weeks with $300 supplement unemployment benefits by Trump Executive Order in August. But the money was funded by reducing other government spending elsewhere, so there was no effective positive impact on total spending. That $65 billion (times 2X) negative spending effect on the US economy continued through December, and has no doubt played a part in the 4th quarter US consumer-retail spending slowdown.

The negative impact of reduced unemployment benefits is about to get much worse, however. The 12 million more that will lose benefits on December 26, 2020 is estimated to reduce household spending by another $150 billion per month (plus multiplier). Should current proposals restore half of that $600/wk., the negative household spending impact will still be $75 billion more in addition to the previous $65 billion reduction since August.

Renters' Crisis Deepening

The real economy's actual deteriorating condition is further illustrated by the renter crisis gaining momentum weekly. Of the 43 million total rental units in the US, 11.4 million are behind in their rents, averaging around $5,800 per household, for a total of $70 billion, according to the business research company, Moodys Analytics. As evictions moratorium ends in January 2021 many renters (mostly still unemployed) will not only have to start paying rents once again, but will have to make up the $70B in lost rent payments or still face evictions. Even after having been evicted, landlords will still legally pursue back payments.

The renewal of rent payments by renters, while still jobless, combined with back payments, will have a devastating impact on household spending and consumption in 2021, the latter of which accounts for 68% of all US economic spending and GDP.

Contrary to the media reporting, millions are already undergoing evictions and facing legal orders to repay back rents. The initial rent moratorium passed last March as part of the Cares Act ('mitigation bill 1.0') did not cover all renters, as the mainstream media consistently suggests, but covered mostly those whose housing was associated with government aid by the HUD and FHA agencies. States and cities in some cases had initiated local moratoria . But most of those local moratoria expired months ago. Trump's Executive Order last August 2020 extended rent moratorium on federally supported rent units, but only until end of December 2020.

Issued by the Trump administration's CDC in September, Trump's EO for rent moratorium expiration will result in 2.4 to 5 million of renters evicted in January 2021 alone, with millions more per month thereafter, according the Wall St. Journal. Moreover, the Trump EO did not prevent landlords from initiating legal action to evict. Hundreds of thousands of evictions are already in progress and legally proceeding in cities across the US, per the Princeton University Evictions Lab. Most heavily impacted are minority households. A recent survey by the US Census Bureau indicates 32% of black renters and 18% of Hispanic renters were behind on rent payments, and about 12% of white renting households.

Homeowners Mortgages Crisis Brewing

While the picture is not as dire for homeowners as for renters, it too is deteriorating and will be intensifying in 2021.

There are 82 million single homes in the US. 49 million (62%) have mortgages. At present 3.6 million are in forbearance, meaning mortgage payments have been temporarily suspended. Suspended payments will have to resume in 2021, however, much like rent back payments suspended require payment. Like renters, homeowners may have to double up on mortgage payments, in whole or part, commencing 2021. It is estimated that 6.8% of homeowners have missed payments in 2020. That's 5.5 million of homeowners—i.e. the 3.6 million in forbearance but another 1.9 million not and who have been missing monthly mortgage payments.

The percentages and totals for mortgage payments in arrears may seem less a problem than the renters' missed payments. But the totals are actually far greater in terms of back money owed: all the deferred and missed mortgage payments amount to $752 billion in back payments that have to be made up. That make up will reduce household spending by another hundreds of billions of dollars in 2021, with further negative impact on US GDP in 2021.

Student Loan Forbearance Ending

Like renters and homeowners, the March 2020 Cares Act permitted suspension and deferral of student loan payments until year end 2020. Also like rent and mortgages, however, that deferral is scheduled to end in 2021. Students will have to make up payments and in effect 'double down' on payments in most cases.
The negative impact on 'doubling down' and making up lost payments is massive. There are 44.7 million student loans in the US, averaging $36,500. Hundreds of thousands own much more. Many more than $100,000. 35 million of the 44.7 million student loans were in forbearance in 2020 and the deferred principal will have to be repaid. The total principal alone, temporarily deferred, amounts to $777 billion in arrears.

Payroll Tax Deferrals

When Trump and his negotiators abruptly broke off negotiations on the fiscal stimulus bill in August 2020, they issued 4 Executive Orders with 24 hours (thus indicating they had planned to do so from the beginning, after having lured Pelosi-Shumer and the Democrats to reduce their May 2020 $3.2 trillion original stimulus proposal called the Heroes Act by $1 trillion).
Among the Trump four EOs was one that deferred payroll taxes of 6.2% for workers for the rest of 2020. (The other three EOs were the temporary substitution of $300/wk. supplemental unemployment benefits for five weeks; extending student loan forbearance to

end of December; and the CDC's partial extension of rent moratorium for 5 million renters). The EO affecting payroll taxes was clearly unconstitutional. Only Congress could change tax laws. But Trump went ahead anyway with the 6.2% payroll tax deferral. Not all businesses followed suit, however.

Since employers by law are responsible for collective payroll taxes, they knew they were on the hook to repay the deferred 6.2% in 2021. They would have to add 6.2% to their employer share of 6.2% nonetheless in 2020 and then repay that in 2021. That meant doubling up on paying their share and their workers' share of 6.2% (deferred September to December 2020) starting January 2021.

It could mean paying payroll taxes of twice that 12.4% in 2021, however. Employers were allowed to temporary suspend their 6.2% payroll taxes since March 2020, and starting repaying that deferred amount plus new payroll taxes by end of 2021. Not many wanted to face the prospect of paying double payroll taxes for both themselves, the company, and collecting and paying double for their workers as well—or 24.8% in payroll taxes. So most opted out of the Trump EO and didn't stop their workers from paying the 6.2% in 2020.

Most large corporations opted out, including GM, UPS, Fedex, Costco, grocery chains, health companies, big Pharma, utilities, and many states as well. Trump forced federal government employees to suspend their payroll tax payments, September-December 2020. Other states and local governments did so as well. Starting January 2021 now many will have to start paying double payroll taxes. That will in turn reduce millions of public employees' available disposable income for consumption in 2021. And that too will reduce US GDP in 2021.

Small Business Collapsing

Even greater magnitude of potential negative impact on the US economy is the current accelerating closing of many small businesses. There are an estimated 30 million small businesses in the US economy, which include millions of small 'independent contractors'. Estimates by the National Federation of Independent Businesses, the trade organization for small business, are 3.3 million have permanently closed as of November 1, 2020. More than 110,000 restaurants, or every one of six. Hundreds of thousands more restaurants, bars, entertainment, travel, and related service small businesses are likely to close over the coming winter months. The impact on consumption, as well as business spending and unemployment, promises to be significant—and in addition to all the preceding negative effects on the US economy.

What is especially concerning about this scenario is that ever since August 2020 the Trump administration has sat on $135 billion in unspent funds allocated by the March 2020 Cares Act for loans and grants for small businesses assistance. $670 billion total was approved by the Cares Act for the PPP program, as it was called, to provide assistance to small business. Much of that was siphoned off and redirected to larger businesses. Millions of very small businesses received nothing. Despite the need in August, the program was ended in August with $135 billion unspent.

From Stimulus to Mitigation 2.0 Negotiations

What started out as a true economic stimulus bill in the form of the Heroes Act, passed by the US House last May 2020, has by mid-December collapsed into a partial economic 'mitigation' bill. Mitigation means just buying time until a true fiscal stimulus can be introduced. Mitigations simply slow down the economic collapse and crisis temporarily, to buy time. True stimulus proposals do just that: generate economic growth that is sustained for months and years to come.

The May 2020 Heroes Act was a true stimulus, proposing $3.2 trillion in new spending across a broad set of programs. It was immediately rejected by McConnell and the Trump administration, both of whom then played ‘hard cop/soft cop’ in negotiations with Democrats over the next six months. In August 2020 Democrat negotiators, Pelosi and Shumer, were lured into reducing their package of Heroes Act spending by $1 Trillion, down to $2.2T, in expectation—signaled by the Trump administration it would similarly respond with a major counteroffer to the Democrats $1 trillion proposal reduction. But they didn’t. Trump’s negotiators, Mnuchin and Meadows, simply walked out of negotiations after Pelosi-Shumer had come down $1 trillion. Meanwhile, McConnell sat back watching the show, holding firm on his no more than $500 billion spending proposal he offered in June.

As the 2020 election grew closer, Trump-Mnuchin offered several new proposals—without any details—to ensure it appeared they were interested in a deal. The latest in October was reportedly as high as $1.8 trillion. It appeared a deal was possible, with the Democrats at $2.2 trillion since August. However, McConnell scuttled the negotiations by making it clear he would not approve more than his $500 billion. Having been burned the previous August, Pelosi and Shumer did not ‘bite’ at the Trump shadow offer, correctly assuming it was pre-election posturing. Had they done so, Trump would have taken credit; no deal would have been reached; and McConnell would have stalled discussions—as he has ever since to the present.

Following the election in November 3, the next development was Mnuchin recalling $455 billion in unused funds from the Federal Reserve given to the central bank the preceding April as part of the Cares Act. That was to be used to help bail out businesses. The Fed did not use much of the Cares Act given it by the US Treasury and Congress, including $135 billion unspent on the small business aid program called the Payroll Protection Program, PPP. That program ended in August, but the Fed held onto the $135 billion, as well as other funds for medium sized and larger businesses and various financial markets. The total unspent came to $455 billion, which Mnuchin then told the Fed to return to the Treasury, which it did. Both Mnuchin and McConnell would use the $455 billion to pay for McConnell’s $500 billion long-standing offer in stimulus negotiations in December.

To attempt to break the bargaining logjam, in December a bipartisan group of Senators and Representatives offered a compromise package of $908 billion. There were no $1200 income checks, only half of unemployment benefits for only 90 days, no aid to state and local governments, and numerous other provisions missing from the Democrats’ $2.2 trillion package on the bargaining table. Nevertheless, McConnell still rejected the $908B compromise. He then cleverly offered to drop his ‘stalking horse’ proposal for business blanket liability if the Democrats dropped their $160 billion in aid to state and local governments.

In the latest iteration of the negotiation charade, the bipartisan group on December 14, 2020 revised their $908B proposal, reducing it to $748 billion by taking out the $160B for state and local government. It split its prior single $908B offer into two parts: one with the state-local government aid and the business liability; the other with all the remaining proposals it had originally offered.

As of mid-December, the proposal on the table by the bipartisan group, accepted in principle by the Democrats but not McConnell, is as follows:

- Unemployment half benefits at $300/wk through March 2021
- PPP small business funding of $300B, now with no need to use to pay workers' wages
- $45B for airlines & transport businesses (despite airlines with $billions of cash on hand)
- No $1200 checks
- Student loan forbearance continued for 3 more months
- Renter evictions moratorium continued for one month
- $82 billion for education
- $13 billion for emergency food assistance
- $35 billion for health care providers
- $13 billion more for farmers & agribusiness (after receiving $70B since 2019)
- $25 billion rent assistance (payable to landlords)

The important point of the total $748B, however, is that it too is a temporary 'mitigation' proposal—not a true stimulus bill.

Like the March 2020 Cares Act, also a mitigation bill, it will only buy a little more time for an economy clearly in a deep slowdown in the 4th quarter and on the brink of another double dip recession in 2021, if one were to agree with Chase bank!

The Cares Act of March was only $1.1 to $1.5 trillion in actual spending—not the $3 trillion mainstream media often noted. $650 billion of $3 trillion was business tax cuts that were mostly hoarded. And more than $1.1 trillion for medium and big business bailouts that didn't happen by the Fed loans, the funds of which were returned to the Treasury in December. Big businesses were bailed out, but via Fed other $3 trillion plus money injections into the banks and markets—not by the Cares Act.

So the Cares Act was a temporary mitigation bill that ran out of spending by late summer. And the bipartisan group proposal of $748 billion is an even smaller mitigation bill that will run out of funds well before next spring.

There is, and there has been, no fiscal stimulus since the crisis began. Nor is a stimulus on the horizon. More importantly, what this means for the economy is that the lack of a true fiscal stimulus for 2021 means the double dip recession looms ever larger on the horizon now! Unemployed workers, renters and homeowners, student debt, double taxed workers, and small businesses will get another temporary partial assistance. And should the Democrats not win both seats in the Georgia Senate runoff elections on January 5, 2021, McConnell will retain control of the Senate and it will be four more years of 'No, No, No' in help to those truly in need. The implications of that for the US economy, and for Democrats in 2022 mid-term elections, is obvious. But that's the likely intention and game plan of McConnell and the Trumpublicans no doubt.

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Articles by: **Dr. Jack Rasmus**