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## **The botched 'American rescue'**

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“To every American watching: Help is here.”

Those were Joe Biden’s words on March 12, 2021. The president had just signed into law the \$1.9 trillion “American Rescue Plan,” a sweeping, partisan spending bill that Biden said “directly addressed the emergency in this country because it focuses on what people need most.”

The president promised that this historic spending plan would help defeat the pandemic, reopen the schools, and revitalize the economy by creating millions of additional jobs. Nearly a year later, the results are in. And they aren’t good.

The pandemic had a deadlier year in 2021 than in 2020, and the economy clearly missed the memo that help was “here.”

Inflation levels not seen for many decades have eaten away at people’s wallets, despite the president’s insistence a few months after passing the American Rescue Plan that “no serious economists” believed inflation was going to emerge.

What’s more, the job creation we were promised for this massive taxpayer boondoggle never materialized.

The nonpartisan Congressional Budget Office projected that without passing the American Rescue Plan, the economy would create 6.25 million jobs. This projection served as the baseline for the Biden administration. The White House called it a “dire” outcome and promised that the rescue plan would add another 4 million.

What’s worse than “dire”? As found by the American Enterprise Institute’s Matt Weidinger, 2021 ended with fewer jobs than expected under the CBO’s baseline scenario, even though the Biden administration spent \$1.9 trillion — roughly \$13,250 per federal taxpayer.

Of course, as Weidinger notes, this dismal outcome “hasn’t kept the president from rebranding what Democrats formerly described as a ‘dire’ and ‘catastrophic’ outcome when selling their massive spending plan as now being a sign of ‘unique economic strength.’”

He told me that job numbers are analytically tricky because they're influenced by far more factors than one piece of legislation.

“It looks like the amount of jobs created in 2021 was the ‘dire’ baseline without the 4 million jobs this administration promised this legislation would create,” Weidinger said. “By that standard, what was the point of the \$1.9 trillion spending in the American Rescue Plan? People are perfectly right to look at this and say: ‘Where are any of those 4 million jobs you promised?’”

When we look past the Democrats’ political rhetoric and examine the actual results, it quickly becomes apparent that Biden’s “rescue plan” was no life vest keeping America afloat and perhaps was a weight holding us down. Why?

The devil is in the details. Upon closer examination, a COVID-focused emergency spending plan is revealed to be a wasteful, partisan bill that simply funneled cash into fraud-rife, ineffective government programs and paid off Democratic constituencies.

Slipped into its many pages was everything from \$20 million for the “preservation of Native American languages” to an expansion of Obamacare subsidies. But its major provisions were as follows:

A \$350 billion bailout for state and local governments

More than \$120 billion for public schools meant for “reopening” them

Extension of the federal, \$300-a-week subsidy added to regular unemployment benefits

\$1,400 stimulus checks for millions

An additional \$7 billion for business relief grants via the Paycheck Protection Program

A massive expansion of the child tax credit

It’s little wonder that this spending bill didn’t defeat COVID, since it didn’t even try. Even the left-leaning PolitiFact concluded that roughly 90% of the bill was not directly related to COVID health impacts.

“Total spending directly on COVID-19’s health impacts ranges from \$100 billion to \$160 billion,” fact-checker Jon Greenberg wrote. “At the high end, direct COVID-19 spending represents about 8.5% of the bill’s \$1.9 trillion cost.”

Per PolitiFact, just about 1% of the American Rescue Plan’s spending went to vaccine-related initiatives, arguably the most effective thing the government has done to mitigate the death count during this pandemic. What’s more, according to the nonpartisan Committee for a Responsible Federal Budget, only about 6% of the spending went to COVID-19 containment efforts via the Department of Health and Human Services and other health-focused federal initiatives.

To be fair to Biden, while the bill was chock-full of partisan wish-list items and unrelated pet projects, a lot of the other spending was indirectly related to COVID-19, in that it was ostensibly

meant to counter the economic impact of the pandemic. But on this front, the spending was corrupted by partisan interests and incompetent bureaucracy.

Consider, for example, the \$350 billion sent to state and local governments in “federal relief.” This massive expenditure was a solution in search of a problem. It was ostensibly intended to allow state and local governments to keep their emergency personnel employed in the face of dried-up tax revenue due to the pandemic. Yet outside of a few specific areas with huge, pre-pandemic budget problems, the predicted widespread local government budget crisis never materialized.

As Cato Institute economist Chris Edwards noted in December 2020, most states and localities didn’t see tax revenue evaporate even during the very worst early months of the pandemic.

This hasn’t changed since Edwards first did his analysis.

“The [American Rescue Plan’s] gusher of state and local aid was completely unneeded,” he told the Washington Examiner magazine. “When the bill was being considered in early 2021, data already showed that state-local tax revenues were growing strongly.”

So, why did Democrats build their plan around an unnecessary expenditure? It’s hard to avoid the conclusion that they simply wanted to funnel cash to their friends in blue-state governments.

Indeed, the funding formula used directly favored blue states over those with Republican governments. One study by economists Jeffrey Clemens and Stan Veuger found that states with Democratic congressional delegations came away with \$300 more per person in relief money than in past stimulus legislation, which did not have any partisan advantage.

“Alignment with the Democratic Party predicts increases in states’ allocations through legislation designed after the January 2021 political transition,” the study concluded. “This benefit of partisan alignment operates through the American Rescue Plan Act’s sheer size, as well as the formulas through which it distributed transportation and general relief funds.”

The bailout also allowed the federal government to attach strings and attempt to micromanage state-level policies.

“The American Rescue Plan included dangerous precedents,” Edwards said. “For one thing, it tried to impose rules preventing the states from cutting their own taxes. In the long struggle between a decentralized federal republic and a consolidated national government, pandemic spending programs sadly pushed America toward the latter.”

Is it any wonder the American Rescue Plan failed when one of its biggest expenditures was such an unnecessary, partisan, and corrupt bailout?

The decision to funnel more than \$120 billion into the pockets of school administrators fits the same pattern. The Biden administration argued that this money would give schools the resources they needed to reopen safely. If the investment truly led schools to reopen and stay open, it may well have helped the economy, given the enormously important role the education system plays in enabling parents to participate in the workforce.

But the money had no actual requirement attached that schools had to remain open in order to receive it. Moreover, most of the bailout money will be spent long after the pandemic emergency is over.

The CBO found that just \$6 billion of the \$120 billion would be spent in fiscal year 2021, and only \$32.1 billion in fiscal year 2022. That leaves more than \$80 billion of the “emergency relief” money to be spent by public school bureaucracies on whatever they want years after the pandemic emergency has ended.

In what universe does that constitute “emergency relief”?

Yet perhaps the most dysfunctional element of the American Rescue Plan of all was the decision to spend billions further extending the federal supplement to unemployment benefits. When the pandemic first began, the federal government responded in part by expanding who could qualify for existing state-level unemployment benefits and adding a \$600-a-week supplement to what states were already paying out. This was later reduced to \$300, which is the supplement the American Rescue Plan extended.

Far from creating jobs or stimulating the economy, this created a massive disincentive to work. Many millions of workers were earning more staying home on benefits than they could earn by returning to work.

One study by economists with the fiscally conservative Committee to Unleash Prosperity found that in 21 states and D.C., unemployed households could earn the equivalent of \$25 per hour under this expanded system combined with existing benefits. In 19 states, the benefits were equivalent to a \$100,000 salary for a household of four with two unemployed parents. They showed that the implementation of the \$300 supplement corresponded with a sharp arrest in the decline of the unemployment dole.

What’s more, we can extrapolate from surveys that at least 1.8 million people didn’t go back to work because of these ultra-generous benefits. And if anything, that’s a drastic underestimate, as it relies on people self-reporting an undesirable behavior.

The work disincentive created by these benefits was so dysfunctional that many red states opted out and ended them early. It’s no coincidence that these states then tended to see consistently lower unemployment rates and have fewer people lingering on the benefits than those blue states that kept the expanded unemployment benefits intact.

The expanded unemployment system was also rife with fraud and abuse. Beginning with the first stimulus legislation, passed with Republican support and signed into law by former President Donald Trump, and continuing under Biden's bill, the government rushed to send money out the door with little verification or care. According to the American Enterprise Institute, the government may have lost more than \$200 billion to unemployment fraud under this expanded system. That would make "unemployment fraud" the fourth-largest stimulus expenditure. To put this in context, the government seems to have lost five times as much taxpayer money to fraud than it spent on vaccine development.

So, when it comes to extending unemployment benefits, Biden's "stimulus" legislation actually disincentivized work — and helped fraudsters much more than working people.

Perhaps the most defensible part of the American Rescue Plan was its distribution of \$1,400 stimulus checks to millions of people. (Full disclosure, I personally received one.) While the stimulus check system did result in some waste — billions were sent to dead people and random foreign nationals — at least it directly aided many workers, something that can't be said for most of the legislation's other elements.

Yet this cash relief was only a relatively small portion of the bill. And it's ultimately taxpayers who will have to pay for those stimulus checks. So, in a sense, they simply offered an advance to be paid back later, directly or indirectly, through higher taxes, more debt, etc.

The American Rescue Plan also allocated \$7 billion to the Paycheck Protection Program. Initially created under the bipartisan CARES Act, this initiative offered businesses "loans" (most don't need to be paid back) intended to help them stay afloat and keep their employees on their payrolls during this crisis. However, research by MIT economist David Autor has shown that the Paycheck Protection Program was wildly inefficient.

A study by Autor and numerous co-authors found that this federal initiative spent \$170,000 to \$257,000 per job it actually preserved. They also found that just 23%-34% of PPP money went to workers who otherwise would've lost their jobs. Their study ultimately concludes that the program was highly regressive, with 75% of its benefits flowing to the top 20% of income earners.

The other major element of the American Rescue Plan was a massive expansion of the preexisting child tax credit. This element of the tax code essentially provides payments to families that increase with the number of children they have. It's a hotly debated policy, even on the Right, with clear tensions between its pro-family benefits and its discouragement of labor force participation.

The child tax credit expansion did have the tangible benefit of increasing many household incomes so they crossed above the (rather arbitrary) poverty line. Yet other analysis has shown

that it also discouraged people from joining the labor force and contributed to our current labor shortage. While the debate over the child tax credit continues, it's certainly safe to say the American Rescue Plan's expansion of it was ambiguous for the economy, at best, and didn't help fuel economic progress the way Biden promised.

With all of the American Rescue Plan's flaws in mind, the real surprise isn't that Biden's \$1.9 trillion spending plan never delivered the "rescue" it promised. It's that anyone believed it might in the first place.