

Newsweek

Democrats Abandon Insistence On Aid to Cash-strapped Cities and States in Stimulus Talks

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Congressional debate over the pending \$900 billion COVID-19 relief bill again underscores the split between Democrats and Republicans over who should receive the funds and how the money can best be used.

Critics charge that Democrats seek to use the Federal Reserve, the nation's central bank, to funnel billions in aid to state and local governments. Opponents argue that such a move would, in effect, be a transfer of wealth from low-tax, well-governed states to high-tax, profligate states.

Senator Pat Toomey, a Pennsylvania Republican, said he wants to redirect about \$429 billion in unspent money from the \$2.2 trillion Coronavirus Aid, Relief and Economic Security Act (CARES) to cover nearly 50% of the cost of the proposed new spending. President Donald Trump signed the CARES Act into law in March. It included direct payments of up to \$1,200 to millions of individuals.

The Federal Reserve issued about \$25 billion in loans authorized by the measure because most cities' private-sector companies could tap the private debt market more cheaply. Jerome Powell, chairman of the Federal Reserve, has said unused funds will be returned to the U.S. Treasury as requested by Treasury Secretary Steven Mnuchin.

Opponents of the Democrats' plan note that the CARES Act clearly states all programs end December 31. If the law is followed, President Biden's Treasury Department then would need new approval from Congress to spend.

Republicans argue that opposition to Toomey's plan shows that Democrats intend to use the Federal Reserve to bypass Congress if they fail to win the Georgia runoff election next month and remain in the minority in the Senate. In November, no Senate candidate won a majority as required by Georgia law, forcing a runoff on January 5.

Republican Senator David Perdue is facing off against Democrat Jon Ossoff. Republican Senator Kelly Loeffler is facing Democrat Raphael Warnock. Loeffler was appointed to fill Senator Johnny Isakson's seat after he resigned for health reasons. The latest polls show both races are dead heats.

Republicans now have 53 seats in the Senate and the Democrats hold 45 seats. Two Independents caucus with the Democrats.

Republicans argue, that if Democrats control both houses of Congress next year, the majority party will tap the Federal Reserve to bail out big-spending states such as New York, New Jersey, Illinois and California.

But that argument ignores the fact that all four of those states are net contributors to the federal Treasury, with New York ranked 24th, California 41st, Illinois 45th and New Jersey 49th among the 50 states in dependency on the U.S. Treasury, according to Wallethub.com.

Republican Senate Majority Leader Mitch McConnell's home state of Kentucky is the second-most dependent on the U.S. Treasury, behind only New Mexico, and barely ahead of Mississippi, the poorest state in the nation.

The Federal Reserve still has about \$40 billion in its special coronavirus pandemic fund that could be used to help hard-hit cities and states, Republicans said.

Critics of the plan note that bond rates are low, making the private debt market a better alternative for cash-strapped states. They argue that the COVID-19 bill pending in Congress includes billions of dollars for public transit, hospitals, protective equipment, childcare and food stamps.

The New York Metropolitan Transit Agency said subway, suburban commuter rail and bus service face deep cuts without billions in federal aid. Other aspects of the \$900 billion coronavirus relief bill also underscore the split between liberals and conservatives.

"Tucked into the bill is a provision to allow businesses to deduct expenses that were paid for by the government's Paycheck Protection Program (PPP)," Adam Looney, a nonresident senior fellow at the liberal Brookings Institution, a Washington think tank, wrote in an opinion piece.

"Passing legislation to allow businesses to pay their expenses with taxpayer-provided PPP funds *and then* to deduct those expenses against their own taxes would be a windfall to high-income business owners — a windfall that would exceed the amounts that Congress is considering in unemployment insurance, rental assistance, food aid, or healthcare."

Looney called the current proposal a "trifecta of inequality" because in order to qualify a person needs to own a company "sophisticated enough" to receive a PPP loan. The higher the company's income, the higher the benefit, and the largest benefit goes to those in the highest tax bracket.

Writing for the libertarian Cato Institute, Alan Reynolds said the proposed \$900 billion COVID-19 relief bill would "repeat the most wasteful political stunt of the last 'stimulus bill.'"

"Borrowing money to send everyone a little check may sound clever to myopic politicians," he wrote in an opinion article. "But it is morally indefensible because it does nothing address to the problem of helping those injured by the pandemic itself or by related state-mandated business restrictions and stay-at-home orders.

"Congress should focus on *targeted* COVID relief, not scattershot direct payments — the overwhelming bulk of which would go to employed people who were not economically injured by the pandemic."

He called the desire to put money into peoples' pockets "a naïve caricature of Keynesian economics" and noted that "debt must be serviced by taxpayers which means that any borrowed money going into some pockets must be forcibly removed from others."

In an editorial, the *Los Angeles Times* wrote, "The deal that's emerging wasn't a triumph of compromise but rather a failure to find consensus. McConnell offered to drop his 'red line' demand for a liability shield in exchange for Democrats' abandoning their demand for a state and

local government bailout. The package would still send billions of dollars to states and cities, but in a highly targeted way — for example, to support COVID vaccinations, testing and contact tracing."

The Wall Street Journal opined, "If Democrats want to bail out public unions in progressive states, they ought to do it honestly through Congress. Leave the Fed out of it."

Debate on the bill continues, as a possible government shutdown looms.