

CORONAVIRUS

Unsanitized: The PPP Witch Hunt is Misplaced

The banks were the problem, not a handful of companies. This is The COVID-19 Daily Report for July 7, 2020.



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Al Drago/Pool via AP

First Response

Monday was a great day for accountability journalism, or rather “accountability journalism,” sarcastic quotes intentional. Every reporter in America was given the same spreadsheet of a list of 650,000 names of recipients of forgivable Paycheck Protection Program small business loans over \$150,000, and the mission to go strike a blow for transparency and find the “undeserving” among the list. Fully 86 percent of the loans were for under \$150,000, and the biggest chunk of the money went to restaurants. But that usually got explained away in exposition after serving up the tribute of the undeserving.

The resulting stories (NYT, WaPo, WSJ, ProPublica, Daily Beast, Politico) reflect more about how many researchers these organizations have on staff and who can read Twitter fast enough, rather than shoe-leather reporting. We even made one of the roundups; I disclosed on the day that the *Prospect* received a PPP loan that we got it and why. So solid gotcha there from CNBC.

If 1/10,000th of this coverage has been devoted to actual big businesses enjoying the Fed’s asset-inflation program, maybe there would be something equitable and noble going on. Instead we have bread and circus distracting from real issues.

The important thing to keep in mind here is that, as of yesterday afternoon, \$521 billion has been sent out for the program, out of \$660 billion authorized. Some of that goes to bank fees, but there’s around \$125 billion left to distribute, and it’s been at roughly that level for a month. In other words, not a single dollar given to “undeserving” companies crowded anyone out from receiving the forgivable loans. Other factors did, which I’ll go into. But the name and shame game just confuses the effort to understand why the PPP failed and who was responsible.

I’d also add that, because of the under-subscription, nearly every one of the \$30 billion already handed back due to public pressure in the great PPP witch hunt was taken from the hands of a worker, who got a pass-through as a condition of making the loan forgivable. (Some businesses didn’t obtain the loans for forgiveness, just to get the low 1 percent interest rate, but that was a small number; generally I find people like free money, even if they had to distribute some to workers). Because it didn’t go back out into other businesses, that just took \$30 billion Congress approved out of the economy, and made more people unemployed. That’s all these “accountability” efforts will do; they are mass firing displays.

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Does this signal that there's no demand for PPP loans? I've heard from plenty of people still waiting for their applications to be processed. A disturbing report from Small Business Majority finds that 2,500 businesses just in California got less than \$1,000 from PPP, 290 got less than \$100, and some got literally \$1. These numbers are so low as to be impossible, given that the program is supposed to pay out 8 weeks of payroll plus 25 percent. One in four survey respondents to Small Business Majority, however, got less than they requested.

So what's going on here? Why did Kanye West's company and high-end sushi joint Nobu and political elites close to the president and high-powered law firm Boies Schiller and haters of big government like Grover Norquist's outfit and the Ayn Rand Foundation (OK that's pretty funny) get these loans, while actual small business struggle? The answer is simple: the delivery mechanism.

Big banks initially preferred those with whom they had a trusted relationship and gave them special service. They saw the program as a nuisance that didn't work for them unless they could cross-sell the businesses. After the first wave a lot of businesses that needed the help closed up while waiting. Wells Fargo shuttered its lending weeks before the deadline (which was extended last week). Running this program through private banks and expecting it to be equitable, in short, was completely foolish.

Payroll protection has been an important function in other developing countries, and the government administered it by itself. It was an afterthought here, and it was mismanaged and perverted. An emergency basic income that requires payroll maintenance would have made a lot of sense; this was a mess.

But the focus on the businesses that worked within a bad system misplaces the fault. For example, the NYT's bravely bold coverage notes that states like North and South Dakota and Nebraska "saw loan approvals of at least 90 percent of their eligible small-business payroll, even though they rank among the least-affected states in terms of unemployment claims during the crisis." I didn't realize that there was a minimum death count or jobless rate for loan approvals. But the real problem is that the *Times* doesn't understand the underlying factors: the Plains states have higher concentrations of community banks (and in the case of North Dakota, a public bank that facilitates them) which actually managed to serve their customers well. Highlighting it in this fashion makes it seem like community banks did something wrong.

The problem with PPP was the terrible private-sector delivery mechanism, thanks to the hollowing out of this public sector. This is an old story; the SBA has been a historical failure.

Oh, and a bunch of the data is apparently corrupted and incorrect, because “listing names in a spreadsheet” is beyond SBA’s capabilities.

It’s also not clear what PPP was supposed to do; it operated at cross-purposes with boosting unemployment, was in direct competition when it came to sole proprietors who were eligible for UI, and didn’t give enough money to actually save any businesses. As a result we got a program wielded by banks for their own interests. In this sense it mirrors HAMP, the financial crisis-era program that banks perverted to steal homes.

PPP’s failures represent a failure of government to maintain the power to achieve anything. But picking out a few bad apples from a 5 million-loan pool makes it look like those businesses are the problem. It’s despicable and misplaced. And it explains a hell of a lot about why this country has such a threadbare universal benefit structure. I expect conservatives to find the undeserving welfare queen and use that to smear government intervention. It’s sadder when the left exhibits the same tendency. If we don’t avoid this Puritanical streak we’re never going to get a single universal program through in this country. The saddest thing about PPP is what it revealed, not about a few businesses, but about ourselves.

Odds and Sods

For our next issue of the *Prospect* I did a review of Pelosi, the new biography by Molly Ball. But it’s really a review of Pelosi, the Speaker, and her leadership in pandemic response. Much of it will be familiar to readers of *Unsanitized*, but I try to make the point that what Pelosi does with power she accumulates is extremely untimed to this moment. Give it a read.

Also at the *Prospect*, Brittany Gibson notes the struggles of Working America, which canvasses working-class voters to persuade them to vote their economic interests, during a pandemic that makes canvassing impossible.

And it’s not pandemic-related but this Jonathan Guyer story about the Biden foreign policy team and the sleazy world of “strategic consultants” is fantastic.

Days Without a Bailout Oversight Chair

Today I Learned

- Trump administration using new rules on online learning to **deport masses of foreign students**. This is abhorrent. (*Wall Street Journal*)
 - A **serology study in Spain** shows that herd immunity just isn't going to save us without a vaccine. (*El Pais*)
 - **Great Rachel Cohen piece** on guardianships and the crisis. (The Intercept)
 - There's no plan to reopen schools in the fall. Willing it **like they're doing in Florida** isn't a plan. (WTXL)
 - Permanent job loss is **falling faster now** than during the Great Recession. (Calculated Risk)
 - Not corona-related but **Richie Neal getting tagged** for his support for monopolists. (HuffPost)
 - A **childcare facility outbreak** in Texas. (CNN)
 - I'm a bit late to it, but this piece on **the human cost of your Fourth of July meal** is good. (Buzzfeed)
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