Round two of the "Paycheck Protection Program": Another disaster for US small businesses and their employees

By Barry Grey
29 April 2020

The launch Monday morning of the second round of the US "small business" Paycheck Protection Program (PPP) was a debacle. Millions of family-owned entities, desperate for credit and tottering on the brink of permanent closure, were once again shut out from applying for, let alone receiving, government-backed forgivable loans.

As soon as the $310 billion program administered by the Small Business Administration (SBA) began taking loan applications at 10:30 am, its computer system, overwhelmed by the volume of requests, crashed.

Cynthia Blankenship, vice chair of Texas-based lender Bank of the West, told the *Financial Times*, "First the page would not load, and then it just showed us an error message." The problems continued throughout the day. Blankenship said her bank was able to process only 15 applications.

TAB Bank in Ogden, Utah had prepared loan applications from 1,100 customers. Five hours after the start on Monday, the bank had gotten only seven loans processed.

The *Washington Post* quoted Paul Merski of the Independent Community Bankers of America as saying, "All of the reports I have around the country is that it's been a disaster."

The big Wall Street banks, which are making a killing off of the government loan program, having taken in $10 billion in fees in the first round, had warned the Treasury Department and the SBA that they had to prepare for a massive flood of loan requests, but nothing was done to avoid the logjam. The SBA said later on Monday that there were double the number of users accessing the system than one any day during the initial round of the program.

The banks have warned, moreover, that the $310 billion allotted for the restart of the program will likely be exhausted in less than a week.

The abortive start of the second round of the program immediately demonstrated that, like the first installment, part of the $2.2 trillion corporate bailout enacted in March, the vast majority of small businesses and their employees will receive little or nothing in relief from the economic collapse triggered by the coronavirus outbreak.

Big businesses were given top priority by the Wall Street banks administering program until the first allotment of funds ran out in less than two weeks. In round two, they will continue to grab a disproportionate share of the funds, while the vast majority of small firms, which employ 48 percent of the US labor force, will be left on their own.

The program, initially backed by $349 billion in taxpayer money, was presented by the media and both big business parties as a boon to businesses with fewer than 500 employees and their workers. Family-owned entities such as restaurants, beauty salons, barber shops, gas stations and small retail stores, as well as other small firms with little access to capital, could receive up to $10 million in government-backed loans that would be turned into grants if the businesses used 75 percent of the loans to rehire or retain their employees and spent the rest on rent and utilities.

Even if the reality lived up to the dishonest marketing spin, the program would do little to prevent a wave of small business bankruptcies and millions of job losses, since it is set to expire on June 30, many months before the economy can reasonably expected to recover from the steepest contraction since the Great Depression and the coronavirus pandemic is certain to continue causing death and sickness on a gigantic scale.

But even before the initial round of the program ran out of money on April 16, less than two weeks after it began, with only eight percent of small firms that applied for loans having received any money, it became clear that the entire operation was a corporate-government fraud.

Despite the fact that the CARES Act, passed last month with the unanimous support of the Democrats, did not require the SBA or the Treasury Department to disclose the identities of the firms receiving PPP loans, it emerged that billion-dollar publicly traded companies, including restaurant and hotel chains with thousands of employees, cruise ship lines, hedge funds, energy companies, medical device firms and other large businesses had received hundreds of millions of dollars in loans, while the vast bulk of genuine small businesses were shut out.

At his Monday press briefing, President Trump described the disastrous start of round two of the PPP as a "glitch," and said the first round of the program had "worked out well."

Indeed it had, for the banks and well-connected, large companies with hundreds of millions or billions in revenues and share values in the billions. Last week, press reports revealed that big restaurant chains such as Shake Shack, Ruth's Chris Steak House, Potbelly Sandwich Shop, and J. Alexander's had received loans totaling between $15 million and $20 million.

A group of hotel companies chaired by Monty Bennett, a Dallas executive and major Trump donor, received $53 million in loans. The firms control 153 properties, including luxury hotels such as the Ritz Carlton Atlanta.

Over the weekend, more damning revelations emerged. More than 40 hotels, including numerous Marriott and Hilton properties, received loans. AutoNation, Inc., a Fortune 500 company valued at $3 billion, the nation's largest car dealership chain with 81 locations and 26,000 employees, received nearly $80 million from the PPP program.

The Los Angeles Lakers of the National Basketball Association, valued at $4.4 billion, received a loan for $4.6 million.

A number of large firms that have run afoul of the law were granted loans. MiMedx Group, an Atlanta-based medical device company with 700 employees, was approved for a $10 million PPP loan. Earlier this month, MiMedx entered into a civil settlement with the Justice Department, agreeing to pay $6.5 million to resolve allegations that it knowingly overcharged the Department of Veterans Affairs. Two of its former top executives were indicted last year by federal prosecutors in Manhattan on charges of accounting fraud. It was sued separately by the Securities and Exchange Commission and settled the case for $1.5 million.

Treasury Secretary Mnuchin as well as prominent Democrats, including Bernie Sanders and Elizabeth Warren, have feigned shock and horror over the insider dealing, corruption and lying in connection with the so-called "Paycheck Protection Program." This is a fraud. They were perfectly aware from the outset that the program was designed, despite the deceptive marketing, to benefit big business and banks and shut down small business and their employees.

In fact, the provision in the CARES Act that allowed restaurant and hotel chains to evade the 500-employee limit, so long as none of their individual units employed 500 or more, was negotiated by Republican Senator Marco Rubio and Democratic Senate Minority Leader Chuck Schumer, known informally as the "senator from Wall Street."

And all but one Democrat in both chambers of Congress—including Sanders and Warren—voted for the second round of the PPP last week, despite the stench of corruption and lying surrounding the program. House Speaker Nancy Pelosi hailed the bill's passage as a "historic, bipartisan vote."

That bill, with $174 billion in addition to the $310 billion for the PPP, did not allocate a penny to aid state and local governments facing massive deficits and preparing to carry out brutal social cuts. Nor did it provide any money for food stamps, under conditions where millions of laid off workers are running out of money for food and massive food lines are spreading across the country.

On the eve of the launch of phase two of the phony "small business" program, Mnuchin announced new guidelines that will supposedly exclude large publicly traded firms, as well as hedge funds and private equity firms, from participating going forward. He also called on big companies that received loans in round one to return the money, and a dozen or so businesses have complied. Among those who have refused to give back the money is Trump's buddy Monty Bennett, the Dallas hotel magnate.

No one should be taken in by Mnuchin's exercise in damage control. Behind the chaos and incompetence that abound in the PPP program is a deliberate policy, one that is shared by the entire ruling class and both of its political parties.

Under the cover of the pandemic, unlimited funds are being funneled to the corporate-financial oligarchy and the stock market, while unemployment benefits are withheld from laid-off workers and credit is denied to small businesses. The brutal aim is to use mass unemployment and the prospect of destitution, homelessness and hunger to force a section of workers back to work without any protection from the virus, while slashing wages, pensions and health coverage for the working class more broadly and eliminating millions of full-time jobs. Millions of small businesses are, in the process, to be driven to the wall while mega-companies gain an even greater stranglehold on the economy.