The Daily Dish

“Fixing” the PPP

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Eakinomics: “Fixing” the PPP

Most people are now familiar with the Paycheck Protection Program (PPP) created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The program offers those employers with fewer than 500 employees loans, and those loans are forgiven – effectively transformed into grants – if employers do not reduce their employment and spend 75 percent of the loan proceeds on payroll expenses. The PPP has been an enormous success, as demonstrated by AAF’s Thomas Wade’s PPP tracking work.

Still, the PPP is not perfect. Among the chief complaints is that not all small businesses are so labor intensive as to require spending 75 percent of the loan on payroll. The House of Representatives took this on, as well as extending the term of the loans from 8 to 24 weeks, in the Paycheck Protection Program Flexibility Act, which passed 417-1. Now, indications are that Senators Marco Rubio (Chairman of the relevant committee) and Mitch McConnell (Majority Leader) support these changes. One can anticipate passage through the Senate and a presidential signing ceremony in short order.

Unfortunately, that does not mean that all the CARES Act lending programs are now just fine. As I noted in my testimony to the Senate Banking Committee yesterday, CARES provided roughly $500 billion to the Treasury to support Federal Reserve (Fed) lending activities – in particular the Main Street Lending Program and the Municipal Liquidity Facility. It is now two months since passage of CARES, and these facilities are not yet operational.

This is a potentially enormous policy error. Most small to mid-size companies have enough cash to survive for a month or two and are not able to borrow directly in corporate bond markets. As has been widely noted, states and localities have seen their tax bases badly eroded by the economic downturn. Missing an opportunity to fill these financing gaps in a timely fashion invites trouble.

Two cheers for Congress to reform the PPP. If Treasury and the Fed aren’t going to do it, it might be time for Congress to turn to the remaining lending programs created in CARES, too.