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New PPP law may have made it more about protecting businesses than saving jobs

On June 10, U.S. Treasury Secretary Steven Mnuchin spoke to the Senate Small Business Committee and offered a glowing report on the performance of the $660 billion Paycheck Protection Program (PPP) initiative that originally was designed to keep workers employed at businesses struggling from the Covid-19 shutdowns and closures.

Mnuchin already has been on the record stating that the surprising May employment numbers (U.S. economy added 2.5 million jobs) may have been a direct result of PPP borrowers hiring back the workers as state governments started opening up commerce.

But the employment and the jobless numbers from May may not be the indication of what's to come in June and beyond. And if there's a dip in rehiring and furloughing or laying off more people, some economists believe it may be the fault of the new PPP rules.

"This new law shifts the program from helping workers survive the crisis to helping businesses stay afloat," said Aaron Klein, policy director of regulation and markets for Brookings in Washington, D.C. "The result will be more workers at small businesses fall through the cracks of this hastily designed safety net."

Klein and others argue that by moving the eligible expense period of the PPP loan for borrowers from eight weeks to 24 weeks and still being able to qualify for forgiveness, the federal government essentially has taken out the incentive for businesses to hire right now.

So far, SBA officials estimate, the $660 billion program (in two tranches) still has about $130 billion left to distribute. The country's largest banks such as JP Morgan Chase (NYSE: JPM), Bank of America (NYSE: BAC), PNC Bank (NYSE: PNC), Truist Bank (NYSE: TFC) and Wells Fargo (NYSE: WFC) collectively forwarded more than 900,000 loans to businesses – about 20 percent of all PPP loans totaling almost $90 billion.

Most business owners say if there's no business activity, and states continue to prevent businesses from opening, rehiring laid-off or furloughed workers makes little sense. Moreover, they argue, if there's no business, there will be no jobs. In fact, that was the primary reason for Congress to change the PPP terms after lawmakers realized that the process of reopening the economy is going to take months, not weeks.

However, when the CARES Act was passed in late March, lawmakers and the fiscal agencies in charge of the country's economy made it clear that the PPP was being initiated for one primary reason: to keep the workers employed.

Under the old PPP rules, if businesses took the money as a loan and wanted the government to forgive the loan, it had to spend the money in eight weeks and use three-quarters of that money for payroll expenses. So, the clock was ticking fast, and many businesses at a risk of taking additional debt, rehired the workers.

But now, under the new PPP law, the same businesses could spread the full hiring until the end of the year based on business conditions. But in the process, the brisk rehiring that, in part, resulted in the bullish May jobs numbers may not be sustainable in the third quarter.

John Quinterno, a principal at South by North Strategies, a Chapel Hill-based research consultancy specializing in economic and social policy, said the new PPP rules need to address the bigger issue tied to the purpose of the program. "Most of the aid right now is tied to the federal unemployment system," Quinterno argues. "The irony is to get that money you have to lose your job. And PPP essentially is pushing back the other way."

But because of business conditions, if company owners are now allowed to keep their workers in the unemployment line, the continuing jobless claims will continue to rise. On Thursday, the Labor Department announced that another 1.5 million people applied for unemployment insurance for the first time last week. More than 40 million people have applied for jobless benefits during the pandemic.

"In the end, business conditions and reopening schedules will determine the jobless numbers," Quinterno says. "The $600 a week in federal assistance for every worker certainly has made it easier for them to stay on the unemployment rolls."

The new rule also brings down the share of payroll for businesses looking to get their loans forgiven. Originally, the SBA and the Treasury had indicated that businesses have to spend at least 75 percent of the loan money on payroll and the remainder could be used for mortgage, rent and utilities. That ratio was revised to a 60-40 split. That also means money is shifting from workers to other businesses.

Klein estimates that lowering the payroll threshold by 15 percent (75 to 60) shifts $76.5 billion from paying employees to paying bills. "The money is now protecting businesses that owe money to other businesses. Larger businesses that are creditors to businesses that got PPP funding are the winners in the shift," Klein said.

For Mark Moody, an owner of two businesses in Tennessee, the new shift of payroll expenses and extension of the covered period is still not convincing enough for him to seek a PPP loan.

"They made no changes to the certification process when applying for a loan that clearly notes two things: economic uncertainty and not having capital access," said Moody, who owns an events venue company and a printing company. "I am a 'yes' on economic uncertainty, but I could not honestly certify that I have no other access to capital."

Moody argues that the SBA and Congress should have made it clear that all businesses are not eligible. "Many people thought it was free money," Moody said. "PPP was not intended for businesses such as liquor stores, but the money went to them anyway."

Treasury's Mnuchin already has shamed many public companies that took the PPP money to return it. On June 10, he testified that about $12 billion was returned by companies. With almost $130 billion remaining to be distributed from the PPP, Mnuchin told Congress that he supports another legislative stimulus package, saying that restaurants and hotels in particular seem to be in need of further support.

In recent days, bank lobby groups have asked Congress and the SBA to make forgiveness of the loans automatic for businesses that received under $150,000 in loan money. "I don't like it," Moody says, adding, with the new rules the agencies should give all businesses a chance to return the money if it was not used for the right purposes, "It does not matter how cheap the money is – it still is fraud if not used properly. This money is coming courtesy of our children and grandchildren."

Only time will tell if PPP will be able to keep millions of workers from claiming jobless benefits that could produce enormous pressure on the country's unemployment system. "The federal $600 per worker per week runs through July," Quinterno says. "Question is, will the government incentivize the workers to get back to work or cut the $600 to discourage them from staying on the jobless rolls."

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