

U.S. Municipal Bond Market

“Defund the Police” Meaning, Influence on Budgets and Pensions

Summary

- Today, House Democrats unveiled details of the Justice in Policing Act of 2020 which includes criminal justice reform and efforts to “iron out racial disparities related to education, the economy, health care and the environment,” according to Speaker Nancy Pelosi.
- The last 14 days of protests and demonstrations have developed into increasing calls to “defund the police.” While there is no central definition of what it specifically means to “defund the police,” it is likely advocates are seeking more funds be allocated to social-related spending, at the expense of law enforcement.
- We cite “defund the police” related examples from Minneapolis, Los Angeles, and New York City. This movement could grow.
- For now, the details (of “defund the police” proposals) we have been reading are not likely to impact overall credit quality, but this influence could grow if changes expand.

Fiscal, Political Backdrop

The COVID-19 related shutdown swelled state and local government budget shortfalls to at least \$1 trillion. Economies are reopening, but the process is happening slowly and gaps are building. Lawmakers in the middle of last week came around to the need for federal relief, however that effort will be pushed back for other legislative agenda items. Additionally, Friday’s jobs report surprise could even reduce the likelihood state and government relief is lined up at all even though record unemployment remains, and state and local governments were one of the few sectors to not add jobs in May.

The Justice in Policing Act of 2020

One of the key legislative agenda items that has usurped lawmaker attention for the month of June has to do with new consideration to amending policing and criminal justice procedures. Interest in the topics were, of course, sparked by the last two weeks of nationwide protests. Today, House Democrats unveiled details of the Justice in Policing Act of 2020¹ which includes criminal justice reform and efforts to “iron out racial disparities related to education, the economy, health care and the environment,”² according to Speaker Nancy Pelosi. Senate Majority Leader Mitch McConnell told reporters that reform should be considered.³ The White House’s opinion on potential policing changes may not be as clear cut, but in a speech last week President Trump reminded voters that he is the “President of law and order.”

Calls to “Defund the Police” – A Matter of Policy Balance

Meanwhile, the last 14 days of protests and demonstrations have developed into increasing calls to “defund the police.” While there is no central definition of what it specifically means to “defund the police” it is likely advocates are seeking more funds be allocated to social-related spending, at the expense of law enforcement.⁴

Case-by-case or anecdotal comparisons show that city police budgets are often much larger than social-related spending.⁵ There could be some broad statistical support, however policy implications are likely to differ geographically and area-to-

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area. Nonetheless, some numbers-based evidence backing the “defund the police” message shows that support for law enforcement is higher and has risen faster than social welfare spending. Spending on law and order (police, prison, courts) has risen at a quicker pace compared to social welfare (Temporary Assistance for Needy Families [TANF], food stamps, and supplemental social security). Law and order outlays are just under 2% of the national income, while social welfare spending is .08%, according to an Emmanuel Saez and Gabriel Zucman review of Bureau of Economic Analysis data. Both line-items were about 1% of national income as far back as the beginning of the early 1970s.⁶ Perception of police spending could also be at issue, as some believe the increased militarization of local law enforcement could be a contributing factor. Local law enforcement has received over \$7 billion in military equipment since 1997, helped by the federal government’s 1033 program.⁷ The 1033 program was specifically established to transfer excess military equipment to civilian law enforcement use.

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If the focus of the “defund the police” movement is to simply transfer resources from one area to another, the movement’s word choice is proving to be confusing to some. The confusion worsened Sunday in Minneapolis, Minn. If interpreted at face value, what transpired in Minneapolis may lead some to believe the city is eliminating its police force.

Is Minneapolis (or other cities) Eliminating its Police Force? No

Over the weekend, nine Minneapolis City Council members told demonstrators they will “begin the process of ending the Minneapolis Police Department.”⁸ This exchange between local representatives and protesters does not mean that law enforcement in Minneapolis will cease to exist, but the more likely interpretation is that local lawmakers are going to connect with and continue having in-depth conversations about criminal justice reform, policing, and related topics with members of the community. The lawmaker support could perhaps result in less money being spent on the police budget, but it seems we are currently in the early stages of policy development, despite the message from the nine Minneapolis City Council members. And we are not yet certain about the financial or budget implications in Minneapolis, because we have no policy specifics. While the “defund the police” saying is catchy, a shortcoming is that it does not include policy details.

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Examples from Other Cities

Other cities have made related moves. Although the Los Angeles police force’s budget was set to increase this year, Mayor Eric Garcetti recently supported a \$100-\$150 million budget decrease for the force, partially influenced by demonstrators.⁹ And just yesterday, New York City Mayor Bill de Blasio announced the city will transfer some police funding to social services initiatives.¹⁰

We believe it will be important for lawmakers to continue to balance the safety related needs of their communities when making decisions that reallocate or decrease funds originally intended for public safety. The original intended purpose of transferred funds is important to consider. Although, it is important to stress this is a complicated time for lawmakers to have to allocate or reallocate funds as budget shortfalls mount nationwide.

End Impact of “Defund the Police” for State and Local Government Budgets

The “defund the police” movement could build, and it may take some time to completely develop what advocates are specifically requesting. Also, it is very likely that the end results of shifting resources from police to other areas will differ place-to-place. What works or is needed in Los Angeles, New York City, Minneapolis, or other cities is likely going to be different.

We will be on the lookout to see if the magnitude of any budget shifts or changes are large enough to impact credit quality, positively or negatively. Before we can analyze the influence of “defund the police” on public budgets or pension liabilities, we need a clearer understanding of the potential specific policy shifts so we can determine the

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¹ Caldwell, Leigh Ann and Rebecca Shaba; [Congressional Democrats unveil sweeping police reform bill that would ban chokeholds, no-knock warrants in drug cases](#); NBC News; June 8, 2020.

² Lillis, Mike and Scott Wong; [Democrats seek to tap into fury over George Floyd](#); The Hill; June 7, 2020.

³ Ibid.

⁴ Here is a recent attempt to describe the meaning of “defund the police.” Yglesias, Matt; [Growing calls to “defund the police,” explained](#); Vox; June 3, 2020.

⁵ [Would Defunding the Police Make Us Safer?](#); The Atlantic; June 6, 2020.

⁶ Ingraham, Christopher; [U.S. spends twice as much on law and order as it does on cash welfare, data show](#); the Washington Post; June 4, 2020.

⁷ Kommenda, Niko and Ashley Kirk; [Why are some US polices forces equipped like military units](#); The Guardian; June 5, 2020.

⁸ Navratil, Liz; [Most of Minneapolis City Council pledges to ‘begin the process of ending’ Police Department](#); StarTribune; June 8, 2020.

⁹ Brewster, Jack; [LA Mayor Slashes LAPD Budget As Calls to ‘Defund Police’ Slowly Pick Up Steam](#); Forbes; June 4, 2020.

¹⁰ Waldrop, Theresa and Laura Ly; [New York plans to move some police funding to youth and social services](#); CNN; June 7, 2020.

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