

## U.S. Municipal Bond Market

# Economic Recovery Proposal, State and Local Relief Key Component

### Summary

- Authors Jason Furman, Timothy Geithner, Glenn Hubbard, and Melissa Kearney published policy recommendations in the Aspen Institute's report, [Promoting Economic Recovery After COVID-19](#).
- Their key recommendations were related to: 1) income support for the unemployed, 2) incentives to reward and facilitate work, 3) offer additional lending support for small and mid-size businesses and 4) provide direct federal support to state and local governments.
- Ideas for specific federal support for state and local governments centered on: 1) block grants for states and localities that could not be used for tax cuts or pension increases, 2) expand federal matching for Medicaid, 3) financial support for K-12 education and 4) aid for public universities, four-year colleges and community colleges.
- The total cost for federal support for state and local governments ranges from \$735 billion to \$1.3 trillion depending upon the recovery scenario.

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### Promoting Economic Recovery After COVID-19

Many people are seeking answers to what the federal government's role could or should be in the new "COVID-19 normal." This is a crucial point in time when federal lawmaker action or inaction could have significant financial and social consequences. Yesterday, four economists from the Economic Strategy Group's Aspen Institute published Promoting Economic Recovery After COVID-19 as a roadmap for policymakers.

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### Proposed Federal Support to State and Local Governments

Support Type	Rapid Recovery Scenario (\$ in billions)	Prolonged Recovery Scenario (\$ in billions)
State and Local Government Block Grant	500	500
Increase Medicaid Matching	80	670
Support K-12 Education	65	65
Public Universities and Community Colleges	90	90
<b>Total</b>	<b>735</b>	<b>1,325</b>

Source: Aspen Institute and HilltopSecurities.

### Authors of Promoting Economic Recovery After COVID-19

The authors of this study all possess extensive economic and policymaking backgrounds and have served as advisors to both Democrats and Republicans.

- Jason Furman is a professor at Harvard's Kennedy School of Government and a nonresident senior fellow at the Peterson Institute for International Economics. Furman also served as chairman of the Council of Economic Advisers under President Barack Obama.

Please see disclosure starting on page 4.

- Timothy Geithner has previously served as president of the Federal Reserve Bank of New York. He was also the 75th United States Secretary of the Treasury under President Barack Obama from 2009 to 2013.
- Glenn Hubbard has previously served as Dean of the Columbia University Graduate School of Business from 2004 to 2019 and continues to serve as a professor of finance and economics. He was a previous chairman of the Council of Economic Advisers, appointed by President George W. Bush from 2001 to 2003.
- Melissa Kearney is the Neil Moskowitz professor of economics at the University of Maryland in College Park. She is a research associate at the National Bureau of Economic Research and a nonresident senior fellow at the Brookings Institute.

*Moving ahead, proper health responses should be a necessity to reopen and many experts agree. Without overcoming the global health crisis, the nation – and the world for that matter – will not be able to concentrate on financially recovering.*

### Health Response is Priority, Followed by Four Major Policy Recommendations

After acknowledging that the federal government's monetary and fiscal policy responses have been significant and "more ambitious than previous economic crisis," the analysis notes, "More is needed going forward."<sup>1</sup> Moving ahead, proper health responses should be a necessity to reopen and many experts agree. Without overcoming the global health crisis, the nation – and the world for that matter – will not be able to concentrate on financially recovering. The report notes:

"The highest priority remains the effective handling of the reopening and legislators should provide whatever funding is needed for the health response, including funding for testing, personal protective equipment and other medical supplies, and support for the development, manufacturing, and distribution of treatments and vaccines."<sup>2</sup>

After the health crisis is successfully addressed, policymakers can, and in some cases, simultaneously address fiscal matters. The Aspen Institute's policy proposal concentrates on the needs of the labor market, small and mid-sized businesses, and state and local governments. The authors include four major policy recommendations:

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- **Income support for the unemployed, underemployed, and most vulnerable:** (a) Continue increased federal Unemployment Insurance (UI) benefits with a phasedown over time based on economic circumstances, (b) employ automatic triggers for UI extended benefits, (c) bolster short-time compensation benefits to preserve viable employment relationships, (d) increase automatic benefits provided through the Supplemental Nutrition Assistance Program.
- **Reward and facilitate work:** Temporary, targeted employment subsidies for workers to reward and incentivize employment and compensate workers who have continued to work during the pandemic in the form of a pandemic Earned Income Tax Credit.
- **Lending support for small and mid-size businesses:** Monitor the Main Street Lending Program and its effect on small and mid-sized businesses; adjust the program if necessary to increase lender and borrower participation.
- **Federal support to state and local governments:** (a) Provide a block grant for states and localities that cannot be used for tax cuts or pension increases, (b) implement expansions in federal matching for state Medicaid and the Children's Health Insurance Program that are adjusted automatically based on economic conditions, (c) provide block grants to state governments for K-12 education spending, and (d) extend federal block grants to public universities, four-year colleges and community colleges.<sup>3</sup>

### Federal Support to State and Local Governments

The total cost of this section of the federal relief proposal concentrated on state and local governments' ranges between \$735 billion and \$1.325 trillion depending on the pace of recovery. There are four major components of the proposal's state and local government support that include relief for states and local entities, Medicaid, K-12 schools and higher education.

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**(a) Provide a block grant for states and localities that cannot be used for tax cuts or pension increases**

Block grants could be used to fill budget gaps and be spread over time if necessary. It seems that constraints for the grants may make the effort more politically palatable as the authors are recommending that the grants cannot be used for tax cuts or pension increases. The total cost will likely be about \$500 billion.

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**(b) Implement expansions in federal matching for state Medicaid and Children's Health Insurance Program that are adjusted automatically based on economic conditions**

Financial downturns are often when state and local government programs are most necessary. State governments lack financing flexibility during downturns. Therefore, Congress has increased the federal share of funding for Medicaid in the last two recessions. This type of expansion could range from \$80 billion to \$670 billion, depending on the recovery scenario.

**(c) Provide block grants to state governments for K-12 education spending**

Funding for education differs from state to state. We have seen situations where some schools, mostly in wealthier areas, only receive limited state government support. In other cases, the state provides extensive support to school districts. It is safe to say that the average school receives about half of its funding from the state in one form or another. This dynamic makes it very possible that schools could see significant funding cuts going forward. The proposal recommends one-time federal funding of \$65 billion for public schools to offset potential state budget cuts.

**(d) Extend federal block grants to public universities, four-year colleges and community colleges**

To support education in the U.S., the proposal offers two major ideas:

- Build on the CARES Act \$30 billion Educational Stabilization Fund and provide another \$10 billion each year for three years to the Department of Education for higher education support.
- Create a community college lifelong learning fund that would cost \$20 billion each year for three years.

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**Summary**

Admittedly, "The cost of this effort will be considerable, with the exact amount depending on the highly uncertain trajectory of the economy."<sup>4</sup> This aid proposal is an example of the fiscal relief and stimulative policy ideas that are likely to continue to surface in the coming days and weeks. How lawmakers respond is going to depend of course on the fiscal landscape, but also how Congress and the White House prioritize and reprioritize their legislative agendas. We think the points above address many of the most important, but not all of the public finance areas that require attention.

In his Congressional testimony yesterday, Chairman Jerome Powell helped provide credibility to current plight of state and local governments when he said, "effectively all states have balanced budget requirements so [when] revenues drop and costs rise, they lay people off, cut essential services. Both of those things can weigh on economic activity in addition to the human cost..."<sup>5</sup>

Proposals such as this take the policymaking process to the next step by trying to quantify what potential effective state and local government relief and stimulus could look like. The conclusions that lawmakers come up with could be similar or different, but at this point, the one item most experts can agree on is the overall need for more relief.

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<sup>1</sup> Furman, Jason; Timothy Geithner; Glenn Hubbard; and Melissa S. Kearney; [Promoting economic recovery after COVID-19; Economic Strategy Group](#), The Aspen Institute; June 16, 2020; page 2.

<sup>2</sup> Ibid.

<sup>3</sup> All points directly from Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> [National Governors Association tweet](#). Citing an answer Chairman Powel gave to Senator Cortez Masto. June 17, 2020.

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