

U.S. Municipal Bond Market

Yellen Confirmation Hearing: Supports Defeat of Pandemic, Loss of Government Jobs Described as "Economic Malpractice"

- Confirmation hearings for Dr. Janet Yellen, former U.S. Fed chair, to become the next U.S. Treasury Secretary began today on Capitol Hill.
- Dr. Yellen acknowledged the rising U.S. debt burden, but supported President-elect Biden's \$1.9 trillion First Stage relief effort saying the primary mission is for the U.S. to defeat the pandemic.
- During Dr. Yellen's hearing, Senator Bob Menendez (D-NJ) described the 1.3 million state and local government jobs cuts since the beginning of the pandemic as "economic malpractice."

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Confirmation Hearing

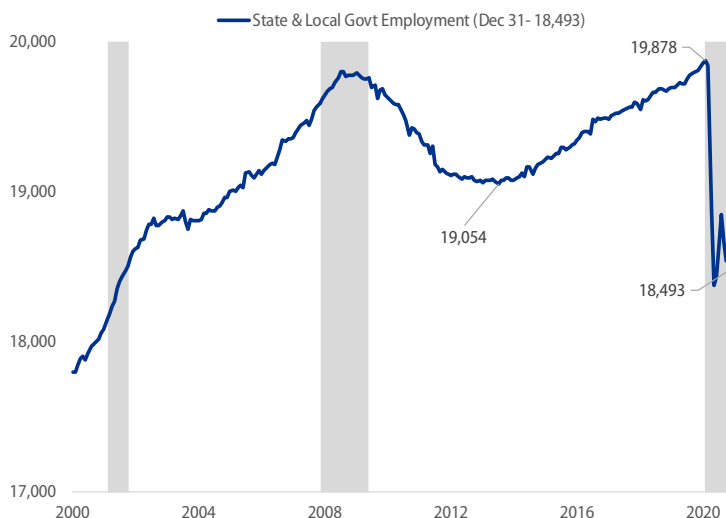
Some things will be different in Washington, D.C. after Wednesday. Hearing people refer to former Treasury Secretary Janet Yellen as Dr. Yellen, and not Chair Yellen is one of them. Policies are expected to shift and even certain norms restored. Lawmakers received a better glimpse, as expected, during Yellen's confirmation hearings that began today. Today, Dr. Yellen answered questions, key among them related to the \$1.9 trillion First Stage Rescue plan unveiled by President-elect Joe Biden last week.

U.S. Fiscal Sustainability

A key issue of concern for lawmakers revolves around the sustainability of the federal budget. The Congressional Budget Office wrote that even after the impact from the coronavirus fades, deficits in the coming decades are "projected to be large by historical standards."

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State and Local Government Jobs Still 1.3 million below Pre-Pandemic Peak



Source: Bureau of Labor Statistics and HilltopSecurities.

Dr. Yellen today highlighted that long-run stability is important, but noted that the primary mission of the U.S. now should be to defeat the pandemic and the economic deterioration that has and could occur in the virus' wake.

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She expressed a high level of concern about the impact the virus, shutdowns, and slowdowns could have on the economy, generally, and small businesses especially. Dr. Yellen supports Biden's first stage. "Neither the President-elect, nor I, propose this relief package without an appreciation for the country's debt burden. But right now, with interest rates at historic lows, the smartest thing we can do is act big," said Dr. Yellen.

"Economic Malpractice"

Senator Bob Menendez (D-NJ) pointed out during the hearing, as we did last week, that state and local governments have laid off 1.3 million workers since the beginning of the pandemic. Sen. Menendez highlighted that those layoffs included the loss of, "doctors, nurses, teachers and school custodians," all of whom he described as "essential workers." He said the loss of these positions should be described as "economic malpractice." We interpret the senator's words to mean that public officials, at the federal level, have been negligent in allowing this loss of essential workers to occur at a time when they are most needed.

Sen. Menendez asked Dr. Yellen if there was a lesson to be learned after the state and local government job loss seen after the Great Recession. Yellen explained that after the 2008 Financial Crisis state and local governments saw lower revenues, an increased need in spending, and were shouldered with massive deficits. As a result, they were forced to slash their workforces.

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In the years just after 2008, state and local governments cut 750,000 jobs, compared to the 1.3 million that we have seen since April 2020. Dr. Yellen described the actions state and local government were forced to follow after the Great recession as a "tremendous drag on the economy."

Government Labor Market Reacts to Budget Pressures

State and local government employment is still down by 1.385 million jobs compared to Feb. 2020. This continued pressure to state and local government jobs demonstrates the steps governments are having to take to balance their spending plans. This weight illustrates the need for direct, unencumbered aid for state and local governments. We do not believe that the fifth phase of COVID-19 relief was a "windfall" for state and local governments as the Wall Street Journal indicated in December. State and cities have still not received any direct, unencumbered aid. There is a significant amount of noise in the third quarter 2020 census state and local revenue data, mostly because of the tax deadlines that were pushed back from April as many probably now remember.

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