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State and Local Budget Pain Looms Over Economy's Future.

Providing more aid to struggling governments has become one of the biggest issues tangling up the debate over another pandemic rescue package.

WASHINGTON — The U.S. economy struggled to shake off the last recession, with historically slow growth and a labor market that took more than six years to recover its earlier employment levels. A big part of the reason: state and local governments, which cut spending and fired workers amid widespread budget shortfalls.

The same dynamic poses one of the biggest threats to America's recovery from the pandemic downturn. State governments are again experiencing extreme budget problems as they pay out increasing sums to cover unemployment and health costs caused by the coronavirus crisis while revenues from sales taxes and corporate and personal income tax payments plummet. States could face a gap of at least \$555 billion through the 2022 fiscal year, according to one estimate.

Economists warn that the long-term risk coming from struggling states could prove even more damaging this time than the last recession, which spanned 2007 to 2009, unless Washington steps in. Yet providing more aid to state and local governments has become one of the biggest political battles in the fight over another pandemic rescue package.

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The New York Times

By Jeanna Smialek, Alan Rappeport and Emily Cochrane

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