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State and City Cutbacks Stifle Broader U.S. Economic Recovery.

- **Cuts in municipal spending similar to period after 2008 crisis**
- **‘The devastating consequences will last for years’ mayor says**

State and local governments are exerting the biggest drag on the U.S. economy in more than a decade as they eliminate jobs and cut spending in the wake of the pandemic, underscoring President Joe Biden’s push to extend aid to make up for lost tax revenue.

Such cutbacks have contributed to a slowdown in the economy for three straight quarters, marking the longest taper since the fiscal crisis that persisted from 2009 to 2012, according to preliminary data released by the U.S. Bureau of Economic Analysis Thursday.

States and cities have been bracing for major revenue shortfalls because of shutdowns since March to contain the virus, prodding them to eliminate more than 1.3 million jobs. The speed and scale of the budget cutting surpasses what happened in the wake of the housing market crash, when such steps largely weren’t enacted until it hammered tax collections after the recession had officially ended.

State and local government employment fell 6.6% last year, the steepest drop in Labor Department records since the mid-1950s. Payrolls remain barely above the 18-year low of 18.4 million in May and account for the smallest share of working Americans since 1966. During her confirmation hearing Jan. 19, Treasury Secretary Janet Yellen said budget shortfalls will beget more layoffs and have “ripple effects through the economy.”

While state budget shortfalls haven’t been as severe as initially estimated as higher-income workers held onto their jobs and stock prices rallied, local governments are still expected to contend with large deficits in the coming fiscal years.

Biden has proposed extending \$350 billion of aid to governments as part of his \$1.9 trillion stimulus plan, a sum that the Brookings Institution estimates will account for three-years of lost revenue. That plan faces opposition from some Republicans in Congress.”

“State and local government economies will feel the aftereffects of the pandemic for a long time. They will continue to be a drag on national GDP for a year, if not more,” said Vikram Rai, a municipal bond analyst at Citigroup Inc. “The longer the aid is put off, the worse it is for state and local governments.”

On a conference call Thursday held by the U.S. Conference of Mayors, the National League of Cities and the National Association of Counties, officials warned of more job and service cuts as they contend with the increased expenses that come with battling to pandemic.

Dayton, Ohio Mayor Nan Whaley said her city cut 200 jobs and will need to delay hiring new cops or firefighters this year. Mayor Jeff Williams of Arlington, Texas also spoke to the urgency.

“The devastating consequences will last for years,” Williams said of the impacts of the pandemic and the lack of aid. “This crisis is not over, and whenever it is over we are going to be digging out of it for some time.”

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By Fola Akinnibi

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— *With assistance by Jeff Kearns*

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