

Bond Case Briefs

Municipal Finance Law Since 1971

States and the Fiscal Experiment Flowing from Washington.

Despite predictions that COVID-19 would crush state tax revenues, most of them didn't need megabillions in pandemic aid to balance their budgets. But for the most part they seem to be spending the money wisely.

It's time for macroeconomists and public finance pundits to eat crow. Early last year, almost all of us — myself included — predicted that states would encounter major revenue shortfalls as the nation locked down to fight the coronavirus. In retrospect, that proved to be a false alarm, at least for all but a third of the states. So the megabillions of federal dollars allocated to them by the 2020 CARES Act and the 2021 American Rescue Plan are largely going someplace other than budget balancing. Has a half-century of empirical public finance wisdom gone out the window?

As for my own humble pie, hopefully I can pass up the largest slice: While I was among the pundits predicting significant tax revenue shortfalls, I did [make the case](#) in this space in April 2020 that the size of federal relief packages being proposed at the time by congressional liberals and advocates of state and local government were double or even quadruple the realistic magnitude of what the pandemic could inflict. Beginning with the data point that total state and local sales and income taxes garner about \$1 trillion annually, my bar-napkin estimate of the likely revenue shortfall was a range of 10 to 25 percent of that number, so perhaps \$100 billion to \$250 billion. At the time, governors were pleading for \$500 billion, and I explained how that was probably going to be far more than was actually needed.

Although the 2020 CARES Act focused mostly on direct aid to individuals and small businesses, it did include about \$150 billion for states and localities. With Democrats relentlessly pushing for more, the bigger funding package came later in this year's pandemic relief legislation: the American Rescue Plan, which earmarked another \$350 billion for intergovernmental aid — a number that will be debated for many years to come.

[Continue reading.](#)

[governing.com](#)

September 14, 2021 • Girard Miller