

THE BOND BUYER

Yellen highlights the importance of state and local emergency aid

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*Former Federal Reserve Chair Janet Yellen testified remotely on Tuesday to the Senate Finance Committee at her confirmation hearing to serve as Treasury secretary. A Senate vote on her confirmation could come as early as Thursday, according to Sen. Ron Wyden, the incoming chairman of the committee. **Bloomberg News***

The Biden administration's nominee for Treasury secretary on Tuesday highlighted the need for another round of federal aid to state and local governments.

Former Federal Reserve Chair Janet Yellen told members of the Senate Finance Committee during her confirmation hearing that "it was a tremendous drag on the

economy” during the Great Recession when states and local governments were forced to lay off workers.

“In 2008 when the economy suffered such a serious downturn, state and local governments saw a huge shortfall in revenue and increased need to spend on safety net-type programs and they faced massive deficits,” Yellen said.

Although Congress and the administration passed the American Recovery and Reinvestment Act in February 2009, that surge in federal spending was offset when state and local governments were forced to slash their workforces to balance their budgets, according to Yellen.

The incoming Biden administration last week proposed direct federal aid of \$350 billion to state and local governments as part of a proposed \$1.9 trillion coronavirus relief bill that would relieve the financial stress on local governments.

President-elect Joe Biden’s plan to stimulate a stalling economy and to vaccinate Americans against COVID-19 also includes money for federal aid to education, public transit, and public housing agencies.

Yellen, however, faced questioning about parts of Biden’s economic agenda that at least some Republicans do not think are pandemic-related, such as the repeal of the \$10,000 federal limitation on state and local taxes known as SALT and an increase in the minimum wage to \$15 an hour.

Republican Sen. Tim Scott of South Carolina said the Congressional Budget Office estimates a \$15 an hour minimum wage would eliminate 1.3 million to 3.7 million jobs while also making it more difficult to create jobs in rural areas.

“Over 110,000 restaurants have closed during the pandemic, thousands of those restaurants in South Carolina,” Scott said. “By increasing the minimum wage to \$15 an hour and eliminating tips for service at restaurants, we will do actually what I would consider an existential threat to those restaurants, and frankly and more importantly, to those employees of restaurants.”

Yellen, however, said that the “millions of American workers who are putting their lives on the line to keep their communities functioning and, sometimes even working multiple jobs, aren’t earning enough to put food on the table and a roof over their heads.”

“Raising the minimum wage would really help many of those workers,” she said. “And that’s the reason for doing it.”

Yellen said she plans to study the impact on state and local governments to “their ability to provide critical services” as a result of the SALT cap, which she incorrectly referred to as having been eliminated.

Under the Tax Cuts and Jobs Act, this formerly unlimited deduction taken by households on local property taxes and state income taxes was reduced to \$10,000.

“The SALT deduction was eliminated only a few years ago and before making a decision about what should be done going forward, I think it's critical to study and evaluate what the impact has been on state and local governments on their ability to provide critical services,” Yellen said. “And I promise to work with those at Treasury and throughout the administration in evaluating what impact that has had on states and local governments, on households, on small businesses, and study this issue further.”

Outgoing Senate Finance Committee Chairman Charles Grassley, R-Iowa, told Yellen, “even left-leaning commentators such as Tax Policy Center point out that a SALT repeal would provide the top one-tenth of one percent of households with an average tax cut of about \$144,000 with essentially no benefit going to bottom half of the household earners.”

Grassley asked how the incoming Biden administration can “prioritize six-figure tax cuts for the wealthiest few when millions of middle-class American families are struggling to make ends meet.”

Sen. Robert Menendez, D-N.J., who favors eliminating the SALT cap, urged Yellen to consider other factors when she studies its impact.

“I hope when you study it, you look at the fact that there are states like New Jersey who give billions more than we get back and states like Iowa that get \$5 billion more than they pay in federal taxes,” Menendez said, referring to Grassley’s home state.

Menendez said the Treasury should consider how states can “continue to be economic engines and then also be hurt in this case by the property tax deduction.”

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