

# THE BOND BUYER

## Fed chairman cites importance of state, local government aid

By

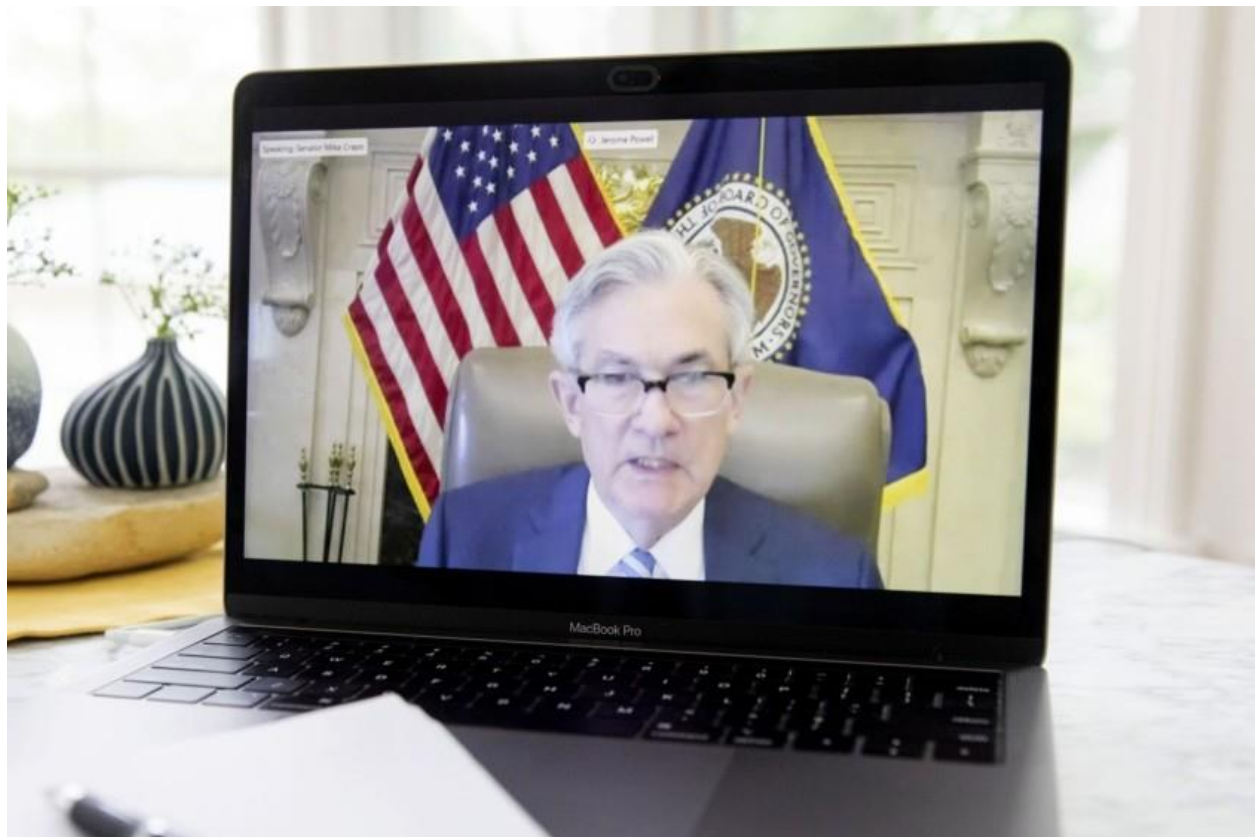
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Federal Reserve Chairman Jerome Powell is telling Congress that federal aid to state and local governments deserves their attention.

In video testimony Monday with the Senate Banking Committee and Tuesday with the House Financial Services Committee, Powell said that the 13% of the American workforce who are employed by state and local governments represent a significant part of the economy.



*In video testimony, Federal Reserve Chairman Jerome Powell said that 13% of the American workforce who are employed by state and local governments represent a significant part of the economy. **Bloomberg News***

“They are one of the largest employers, so it can really weigh on the economy if the states are in tight financial straits, very tight,” Powell said Monday in response to a question by Sen. Jack Reed, D-R.I.

“What happens is, first of all, they will cut essential services,” Powell said. “Secondly, they’ll lay people off. All of that will weigh on the economy.”

Powell did not take a position at either hearing on whether Congress should approve additional aid beyond what it already has approved in the CARES Act and earlier legislation to address the COVID-19 pandemic.

However, Powell did acknowledge under questioning Tuesday from Rep. Ed Perlmutter, D-Colo., that as an economist he can note that state and local governments already have laid off 1.5 million workers. “It will hold back the economic recovery, if they continue to lay people off, if they continue to cut essential services,” Powell said. “And in fact, that’s kind of what happened, post the global financial crisis.”

The Federal Reserve chairman also made clear that the Fed’s Municipal Liquidity Facility, which already has one approved loan, cannot forgive those loans.

“We can’t make grants,” Powell told Sen. Catherine Cortez Masto, D-Nev., during the Senate Banking Committee hearing. The Fed chairman added that the jurisdiction to make grants lies with Congress.

The Fed earlier this month used the MLF to approve [a one-year loan](#) of \$1.2 billion through June 5, 2021 to Illinois at a coupon rate of 3.82%.

Powell agreed with several Democratic senators who pointed out that the slow pace of economic growth following the Great Recession was partly attributable to spending cuts that had been made by state and local governments.

The give and take at Monday’s Senate hearing was part of an effort by Democrats to bolster their position that the Senate needs to approve another round of federal aid to state and local governments similar to \$915 billion in the HEROES Act approved by the House.

Federal Reserve research in the wake of the Great Recession found that state and local government austerity measures were a drag on economic growth for 23 out of 26 quarters between 2008 and mid-2014, said Sen. Robert Menendez, D-N.J.

That austerity resulted in 3.5% less in economic growth by the end of 2015, the Fed estimated, Menendez said at the hearing.

“I know the finding,” Powell responded to Menendez. “I can't swear to those numbers. I'll take your word for it.”

The National Association of State Budget Officers separately has reported that in fiscal 2010, which for most states began just after the Great Recession in June 2009, 25 states made across-the-board budget cuts. In addition, in fiscal 2010, 24 laid off state workers, 16 states had employee furloughs, nine enacted salary reductions, 13 cut employee benefits and 19 reduced their aid to local governments.

Menendez is the lead Senate cosponsor with Republican Sen. Bill Cassidy of Louisiana of the SMART Act, which would provide another \$500 billion to state and local governments to deal with revenue shortfalls and other effects of the pandemic.

Their bill, which is believed to have a better chance of passage in the Republican-controlled Senate than the HEROES Act, also has two other Republicans and two Democrats as cosponsors.

The Fed chairman and Menendez also discussed how state and local governments were slow to rehire workers in the aftermath of the Great Recession.

“It would be the irony of the pandemic that those who we need the most, police, firefighters, paramedics, healthcare professionals during the course have the pandemic and maybe a rebound, would be the ones who would lose their jobs,” said Menendez. “So, I hope that the Congress does respond.”

Former Federal Reserve Chairs Ben Bernanke and Janet Yellen, meanwhile, joined more than 150 economists in [releasing a joint letter](#) Monday to congressional leaders urging additional funding.

“Congress must pass another economic recovery package before most of the support in the CARES Act expires this summer,” the letter said. “Given current projections of economic need, this new bill should provide, at a minimum, continued support for the unemployed, new assistance to states and localities, investments in programs that preserve the employer-employee relationship, and additional aid to stabilize aggregate demand.”