The Daily Dish

Return to Work – the State-Local Edition

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Eakinomics: Return to Work – the State-Local Edition

A key part of congressional negotiations over the next legislative effort in response to the COVID-19 recession will be assistance to state and local governments, with schools gaining increasing attention in recent weeks. There are fears – exemplified by a recent *New York Times* op-ed by former Federal Reserve Chairman Ben Bernanke – that Congress will do "too little" and job losses in the state-local sector will impede the economic recovery.

As Eakinomics noted last month, job losses in states and localities have already been more severe than in the Great Recession, but Congress has also already been more aggressive in its response. State and local governments experienced a maximum employment decline of about 4 percent, while Congress allocated over $50 billion – 6.8 percent – out of the $790 billion American Reinvestment and Recovery Act (ARRA) funds for state-local governments. In the past three months state employment has fallen by 5.5 percent, and local government employment is down 8.7 percent, but Congress provided $150 billion or 8.3 percent of the funding in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Still, more assistance is likely appropriate. But what if governors and mayors got all the money they wanted but the jobs did not come back? How's that, you ask? Take a look at the latest from AAF's Isabel Soto. Due to the by-now-infamous $600 per week federal bonus for pandemic unemployment insurance, "At least 62 percent of all state and local workers could make more on the enhanced unemployment benefit of $600 a week than at work."

So, Congress could fill the coffers of states and localities, jobs would still exist at full pay, and nearly two thirds of workers would be financially better off on unemployment insurance. It is a recipe for "Holy long lines at the DMV, Batman!"

Of course, not all places are created equal. "States with the greatest percentage of government workers who would be better off on UI include New Mexico, Kentucky, and Oklahoma, where over 80 percent of state and local workers typically make wages under what they would receive on expanded UI. New York, Maryland, Arizona, California, and Delaware are on the end of the spectrum with just over 50 percent of their state- and local-government workers making more on unemployment." But, most important, "In every state (excluding the District of Columbia), the majority of state and local workers would make more on unemployment than at work."

Assistance to states and localities will get a lot of attention in the weeks to come. But Eakinomics readers will know that the real action will be the decisions on the future of federal supplements to unemployment insurance.