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WEBINAR

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FISCAL POLICY OPTIONS TO SUPPORT COMMUNITIES AND STABILIZE THE ECONOMY

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Roundtable Discussion:

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Closing Remarks:

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P R O C E E D I N G S

MS. BOUSHEY: Hello, and welcome to today's Webinar. My name is Heather Boushey, and I'm the President and CEO for the Washington Center for Equitable Growth. I'm really pleased to welcome you all today to this webinar where we're going to discuss the book *Recession Ready*, which we released over a year ago at Equitable Growth and the Hamilton Foundation. So, before I get started, one note of housekeeping, I want to note that unfortunately, the Chicago Mayor, Lori Lightfoot, is no longer able to join us today due to the situation in Chicago. So, instead of ending at 3:15, we're going to end a little bit early.

Just to give you a roadmap, I'm going to have a brief introduction, and I'm going to have a fireside chat with Congressman Beyer and then we'll turn it over to the Hamilton Project's Jay Shambaugh, to the panel.

Just a few words by way of introduction. I want to start by acknowledging the moment that we are all in. Recent policy violence against Black Americans and the ensuing protests across the nation have again underscored our nation's deep-seated inequalities, both racial and economic. Our mission here at the Washington Center for Equitable Growth is to accelerate research on whether and how economic inequalities and all their forms affect the larger economy. How do they effect economic growth and stability? Indeed, we have spent the past 7 years funding and working with scholars on these questions. We've found that the evidence points to the conclusion that inequalities systemically obstruct people from engaging in the economy in the most productive ways. Certainly, the violence that we are talking about today is emblematic of that and we see that inequality subverts our economic and political system. So, they benefit those at the top, not the rest of us. These create distortions through our macroeconomy. Indeed I would argue that we see this vividly right now over the course of 2020. Our nation's lack of focus and inability to craft policies that would create resiliency across our economy have meant that the Covid Corona Virus pandemic which has now killed around 110,000 Americans has been especially devastating relative to our economic competitors. For too long we have failed to ensure that all workers have access to workplaces that protect their health and the health of their consumers. We can see how this is part of what's behind this human toll today. We can also see how that pain is falling particularly hard on Black and Latinx people whose result of pre-existing inequalities, including health disparities, wealth, and income gaps in occupational segregation, especially into essential industries. We can see how that means that they are dying in greater numbers and their communities are being disproportionately affected.

At the same time, this Corona virus crisis has turned into a grave economic crisis. We can see that the failures to contain the virus have led to a deepening of this crisis here in the United States. One in 4 Americans have lost their job and less than Black adults are in a job today. Estimates are that state budget shortfalls can total more than 500,000,000,000 in a single year, nearly double what was estimated States missed out on in the entire decade following the Great Recession. Of course, many states have fiscal requirements that they balance their budgets. This is forcing governors to make budget cuts in a time when we actually need those state governments smore than ever to help deal with the Corona virus crisis and the ensuing economic crisis. This too will effect communities, especially Black Americans and Latinx communities who are more likely to work in the public sector and are being disproportionately affected.

So, the policy response so far has provided relief, but we see that there is still much more to do. I think there are great concerns that if we do not continue to act, many workers and their families will become increasingly desperate and that will raise the likelihood that they will accept working conditions that will mean that more work places will become hotspots for the virus. Of course, if that happens and we close down again, the economic cost would be enormous. With Congress considering a new round of fiscal relief legislation, there is an urgent need for concrete evidence backed policy proposals that can soften the recession's blow and begin to address our nation's racial and economic fissures. So, a year ago, Equitable Growth and the Hamilton Project put together this book *Recession Ready* that lays out the best countercyclical policies for dealing with the recession. Our hope was that policymakers could do this before the next recession, but, of course, while hope springs eternal, we weren't able to do that, but we do have good ideas that can be put in place right now. Today, I'd like to introduce a policymaker that has been working very hard on these issues.

Representative Don Beyer is a Democrat representing Virginia's 8th District in the U. S. House of Representatives. He serves on the powerful House Ways and Means Committee. He became Vice Chair of the Joint Economic Committee earlier this Congress and has already been quite influential from that perch, publishing reports on automatic stabilizers and the impact of the Corona virus on people of color, in championing an extension of the emergency unemployment benefits. So, Congressman Beyer, welcome, Don. It's great to be with you here today.

MR. BEYER: Thank you, Heather. Thank you, Dr. Boushey. It's fun to be with you. Thank you for laying out the challenges our nation faces so clearly.

MS. BOUSHEY: It's grave. I'm so happy I have you here to talk with us all day about this. I want to start this off by giving you a couple of moments to talk about the moment we're in, which I think is so germaine to the work that we're doing to try to address the recession. So, can you just spend a couple of moments giving some of your reaction to the police violence and the social unrest and how we think about the role of racial equity as you're thinking about economic policy.

MR. BEYER: I just drove by this wonderful largely African American church a block from our home, Alfred Street Baptist. They have a long banner outside of all the African Americans who have been killed by police and not all of them, but the ones that everyone knows the names of. It's an astonishing list. It's a very sad time, but there are so many things that make me hopeful. I'm just old enough to reme3mber all the civil rights activities of the 60's. There were very few White people as part of that. Now, it's my children and your children that are down there. We have a rally this afternoon, albeit largely White protesting this. But really understand in relevant to the recession ready, when I took over as chair there, Vice Chair of the Joint

Economic Committee, House leadership, Speaker Pelosi, Steny Hoyer, took me aside and said the stock market is 29,000 and unemployment is 3-1/2 percent. Please look deeper at what is really going on in the economy. We'll celebrate those things, but that's not all. Immediately we come to really the massive income in equality and wealth in equality, which was silent to those people not affected by it. Now, 3 or 4 months later, the Corona virus crisis has really just demonstrated in the most painful way that that economic and social inequality plays itself out.

MS. BOUSHEY: It's so interesting that you should start there because seeing that connection to the way that racial inequality plays out on the streets, plays out in policing practices and the ways that people have access to be able to trust that government tis on their side and the parallels, at least in my view, with whether or not people believe that they can trust that government is on their side to help us through the economic crisis, is just so important, I think, to keep front and center, as we're thinking about how to deal with this recession. Now, as an economist, as I'm thinking about some of the big economic questions, I'm really worried about how this will affect the least among us, how our failures to help the lease among us actually means that the recovery will be slower. I wonder if you could spend a couple of minutes telling us how at the JEC or in your work you've been thinking about the steal and scope of this recession and where you would start in terms of the questions that you're asking and how you're thinking about that starting place in your approach to the policymaking.

MR. BEYER: Well, back to the racism too, I definitely think that culture follows policy structure. I believe the policy right is going to change hearts and minds. So, let's think about the economic policies of the last decade, less many, many decades, have worked systemically, to enrich the people at the very top and to keep the ones farther down, down. So, there's the short run and the lower run. The short run is trying to make sure that those people that are way disproportionately affected, people of color, the working class, have enough month to survive, that we see that people with good educations like all of us this call can work from home, but I think they said the last week of March, the target week, those with a high school education or less, only 20 percent worked from home. So, they're out there on the construction sites and the fast food restaurants and the service industry, and then they are coming home to crowded homes often. So, t heir death rate, the death rate of an African American for Corona virus is 5 times that of a White American. So, we've got to right away think of how do we support them through the Corona virus. I think the biggest single thing is the extensive of unemployment insurance.

MS. BOUSHEY: Tell me a little bit about the work that you've done with Unemployment Insurance. I couldn't agree with you more as an economist. I think that's one of the most important policies for the recession, for any recession, but tell me a little about your work, thinking about unemployment benefits and particularly why you think they're such an important automatic stabilizer.

MR. BEYER: To begin with, it was very good in the first packages that we put together, largely, almost completely bipartisan that we added the $600 bonus, be3cause many states' unemployment insurance3 just isn't enough to feed yourself or pay the rent. So, we were helping an awful lot of families get through. We also know this runs out July 31st, June 1st, and the Congressional budget office says 9-1/2 percent plus all of next year, all of 2021. They say could still be 9-1/2 percent at the end of next year, a year and a half from now. So, we've got to make sure we're planning for that. Now, in the last Great Recession, I think statistically they said that they re-upped unemployment insurance 13 different times. That's 13 political battles between the house and the Senate and needing 60 votes, the President, and the political cost, and just the insanity of doing that really pushed us towards automatic stabilizers. On the Joint Economic Committee, we started with Professor Jay Shambaugh, continue with Professor Jason Furman. Every wonderful economist we've talked to said think about stabilizers because you want something that avoids a political fight that is there when you need it and isn't there when you don't need it and gives you the opportunity to titrate it by state because as I've often pointed out, Nevada's unemployment rate is much higher than Virginia. In Virginia, we have lots of Federal employees, military, defense industrial based, and the like. We are likely to recover more quickly. They are like having to help a lot longer than needed.

MS. BOUSHEY: Because we are one nation, of course, the e3xte3nt to which there are some states that recover slower, that actually affects demand across the country; it affects demand for goods and services in other states. So, the extent to which we can use that faster recovery in one state to provide some of that support to those workers that are not recovering. Then the whole nation can actually recover quicker It's important to keep bearing that in mind. Sometimes I feel like in these recession conversations, we kind of fall back on some Federalism that doesn't really make sense from an economic perspective. So, I just want to point out there.

MR. BEYER: Heather, one of th4e ironies is that I

suspect many of the slower recovering states are going to e red states, which is why I love to have Republicans on board with their automatic stabilizer idea.

MS. BOUSHEY: Do you have Republicans on board with this idea?

MR. BEYER: I think they might in the Senate. We don't in the House, but I don't think they're that automatically excluding. We've been scattered and everybody is working by zoom. As we get back together, as we fight for the next one, I think we'll try to do that.

MS. BOUSHEY; It's hard to pull your colleague aside on Zoom and have that 1 on 1 conversation. I want to get back to some of the 3econics and the policy making of this. One of the things that we really work towards in the *Recession Ready* book is that a number of chapters that talk about different kinds of policies. One group of policies that have always been sort of our tried and true automatic stabilizers, unemployment insurance, we talked about food stamps; we talked about Tana, programs that have always been there, that automatically income there da has approved my TANA, programs that have always been there, that automatically pump more money into economies during bad times and don't pump as much money in in good time and UI, of course, has a tax structure where it's pulling out money. Taxes are larger during good times. Then we talk about ideas tht we haven't made into automatic stabilizers before, direct payments, aid to the states. I know Jason is going to be on the next panel. Hopefully, they'll talk about that in infrastructure. Can you tell me a little bit, when you first kind of started engaging in those ideas. We've already talked about unemployment insurance but tell me what really captured your imagination as a policymaker and why. Why did you think that this was really the kind of policy that you wanted to spend your time focused on?

MR. BEYER: I think the big thing for me, Heather, was thinking the old notion that you don't want to waste a crisis, that there is such equilibrium right now. We're going to have to rebuild. So, let's rebuild in a way that actually brings more equitable growth. When you look at the average Black family has a net worth 1/10 of the average White family. That there is a lot of stuff we should be doing beyond just thinking about $15.00 an hour minimum wages. So, automatic stabilizers is one sort of deep structural piece that can be there to help people when things turn back, but we also have to think, for example, front and center for us is the fact that state and local governments are going to be $550,000,000,000 down and those folks are not highly paid white collar executives. They tend to be the people who are doing everything from picking up the trash to child protective services, teachers, police, firefighters. So, there is a huge need to make sure that the federal government is replacing that money. I think the point you‘ve made is those state and local governments with their balance budget requirements are the automatic destabilizers in our economy. Just when we’re taking away all of their income through the recession, is when they need to be helping people the most.

MS. BOUSHEY: Certainly because of the unique nature of th4e crisis right now with the Corona virus, I mean states and localities are having to come up with plans to help people in their communities cope. They are having to figure out how they are going to deliver services to people that are homebound or really need to be careful about catching, although everybody needs to be careful about catching it, but some folks who have problems with their immunity. I mean these are issues that states and localities are having to deal with. To constrain their capacity to act, right when their communities need them the most, seems specially misguided, but of course, after the Great Recession, one of the things we saw was states cut back their employees markedly. In fact, it wasn't until just the last couple of years, a year or so, that we actually saw those come back to their pre-recession levels. We talk a lot about the student debt crisis and we always need to remind ourselves that some of that is because states cut funding for higher education. So, they pushed that burden onto families. You think about the recovery. Kids today that are graduating from high school virtually who want to go to their state university, who may even have to go virtually, will have to pay more because their state can't afford it, take on more debt, but they're these multiple burdens we're putting on young people and this too is going to proportionately hurt children of color in communities all across the country. I'm very worried about those long-term implications for state and local budgets.

MR. BEYER: There is so much here that is frightening. We tend to talk, at least in our Democratic circles, about the working poor and African Americans. We also have to remember the rural poor who are both Black and White, but who now don't have rural broadband. Their children who are staying home from school are being denied the higher quality education we're getting in the4 suburbs and in the cities. One of the things that has worried me most, I worked a food bank last week in Arlington, Virginia. For as long as I was there, you could not see the end of the line. They said one of their great challenges is they always got the extra food from the restaurants. They are all closed. So, they are having to turn to their state and local governments to fund the food they need to feed all these people who don't have any income. One of the other sets of roles of the state and local government is the people that we left out. We said you had to be a citizen of the United States. We've got a lot of people here who are not citizens. They may be green card holders. They may be temporary protected status. They need to eat too. They weren't getting the $1200. They weren't getting the unemployment insurance.

MS. BOUSHEY: Is your thinking about the Heroes Act and the next packages and the debates that are happening? Do you think -- I know that automatic stablers weren't included. Unemployment wasn't made so that it would continue on until the unemployment rate came back down as a part of the Heroes Act. Do you think there is room to keep having this conversation on the Hill, that we could actually keep things like aid to the states, expand food stamps, or continue these higher payments for unemployment insurance, that we could keep doing this until the unemployment rate came down? Do you think there is appetite among your colleagues to do that?

MR. BEYER: There is enormous appetite on the Democratic side, both House and Senate. I know Minority Leader Schumer, Speaker Pelosi, they have all expressed a sustained interest in automatic stabilizers. They know what it's like to go through these political fights and have to give up something every time. I'd love to get our Republican colleagues on board also. Our Heroes Act was 3 trillion dollars. The buzz on the Hill right now is Republicans may go for as much as 1 trillion, but 3 trillion was going to be barely enough. We didn't think that was the last package. While we celebrate in th4e short run this "good news", 13.3 percent unemployment, despite the 3 percent misgivings of the BEA, we have to realize it still is 25, 26 million people unemployed right now. If we take our foot off the4 gas, it's going to be 2011, '12 again, when we took our foot off th4e gas after the Great Recession, or 1936 in America. We can't slow down until we've really pulled the economy out of this, this self-proclaimed government just prescribed recession.

MS. BOUSHEY: And it's so important in this recession because the crisis itself was caused by the fact initially that government and policy makers told people, hey, for the health of us all, we need to socially distance. We need to shut down these businesses. We need to not go to clubs. We need you to close these restaurants. To then abdicate that responsibility, to continue to make families whole, to make sure that there is still money flowing through those communities so that those businesses that are sort of still, when I think of all the small restaurants in my neighborhood that are still sort of hobbling together doing takeout. You take away the income of people who are out of work, to be able to afford that. Then you really do start pulling down that demand for goods and services in ways that we haven't seen yet because we have had this extraordinary bipartisan effort over the past few months to get these things passed.

One things that I know some folks on the Hill are very concerned about is the ability to pay for these things. How are you thinking about -- I was about to editorialize and tell you how I thought about automatic staples. I'll let you answer and maybe I'll editorialize after I let you talk about that.

MR. BEYER: On that itself, I have always been a deficit hawk, perhaps because I ran a family business for decades. You have to balance your budget. You don't want to get too deeply in debt. On the other hand, we have an interest rate about zero. The only reason it hasn't gone negative is the Chair of the Federal Reserve says he's not going to let it go negative. So, this is the best time in the history of our country to use money to prop up our people. Yes, as the economy comes back to fully recovery, we can think about how better to pay for the things that we want to. The dilemma, of course, is that we have a not very progressive taxation system. As a people, we don't seem to be willing to pay for the Medicare, Medicaid, Social Security, and other things that we want. It's a much tougher conversation, but it's not one we should be having right now.

MS. BOUSHEY: I couldn't agree more. I mean interest rates are low. It's very, very cheap to borrow. So, the government should do that, but it's also the case where I can't imagine another moment in my lifetime where it seemed more important to make sure that we came together as a country and did what was right to help communities and that will help all the communities that need help and all the folks who are out of work and then those businesses that need those customers, but it will also help us push towards recovery. Right? We need to hold on until we've got this virus under control so that we can all get back to doing all the things that we want to do. In the extent to which government pares back, I am very worried it actually exacerbates the health crisis as too many people feel too desperate or standing in food stamp lines or willing to do jobs that might put them at risk.

MR. BEYER: It would be very shortsighted.

MS. BOUSHEY: Shortsighted. We're supposed to keep this short. Unfortunately, Don, I could talk to you all day. It's been a treat. I want to just take a moment to really thank you for your leadership on the Hill. It has been incredible to work with you over the past however long months and years, but also just to see your leadership over 2020 on these economic issues has been just really incredible. So, it's a real honor to be able to engage with you.

MR. BEYER: You've been a great partner and th4e Center for Equitable Growth is doing really important work. Of course, we rely on economists at Brookings every day.

MS. BOUSHEY: With that, I will hand it over to Jay Shambaugh who is the director of The Hamilton Project at Brookings, so that he can take it from here.

MR. SHAMBAUGH: Great. Thanks, Heather, and thanks very much, Representative Beyer. I just want to echo what Heather said about your leadership on these issues, has been really helpful and really inspiring to see and thank you and your whole team there for the work you've been doing there.

I'm Jay Shambaugh, Director of the Hamilton Project and I'm now going to start a conversation with former Mayor Michael Nutter, Mayor of Philadelphia from 2008 through '15, now the David Dinkins Professor at Columbia, and Jason Furman, Former Chair of the Council of Economic Advisors and now a professor at Harvard University. We're going to try to drill down on one particular topic, here talk broadly about automatic fiscal support and fiscal policy in a recession, but really thinking about it from this prospective of what do we do to support communities, how do we think about the struggles states and cities in particular are going through.

So, just picking up on some of the themes from that terrific discussion, currently we're looking at an unemployment rate above 13 percent, probably above 16 percent, depending on how it's counted. It's far, far higher than it was at any point in the Great Recession and yet, after Friday's jobs' report, there were many people saying, well, okay, that means we're done. We're done with fiscal policy support to the economy. I think if that is the case, it means, first of all, we'll be winding down support when the economy is in worst shape than it was at any point in the Great Recession. At the same time, it means there are some things that just won't have gotten done. In particular, one thing we have not done in this recession yet is really provide broad based support to states and cities, something that was done in the last few recessions. We have done some support to directly deal with the costs of the pandemic, but nothing really to think about the broader costs and lost revenues in particular. If you look at 2009 through '11 and '12, one of the places that was really holding back the economy as the recession was officially over but the recovery was slow, was the state and local sector not doing the hiring they would normally do and not doing the spending they would normally do and a lot of that just came out of their budget troubles. If you look at the last 2 months, we've actually lost 1.5 million jobs at the state and local level, including half a million last month. So, as the economy overall added jobs, we still shed a lot of jobs at the state, and especially at the local level. So, one of the things we want to talk about now is what do we want to do about that. How do we prevent a replay of the last recovery that was slower, and in part, slower because of what was going on at the state and local level?

So, I'd like to start by turning to Mayor Nutter. I want to talk about some of the broader things going on in the country and at the city level, in particular later, but I'd love to start just talking to you about what you saw on the ground coming in as a new mayor right as the recession technically started, I believe the month before you start4ed office, and what it was like in 2008 and 2009, kind of waiting for support to come. What it meant to your ability to operate as a mayor once that fiscal support arrived.

MR. NUTTER: Well, Jay, thank you. I'm pleased to be on this panel and thank the Congressman and Heather Boushey for the earlier discussion. I'm sure we'll touch on some of that. Jason will certainly have his perspective, but we did experience it pretty much in that time. No one knew that the recession had start4ed in December of 2007. I came into office in January of 2008. So, at that time, it was kind of hey, there is a new mayor, a campaign of reform, kind of happy days are here again, and here we go. We weren't flush with money, but we had some money, and we started making investments. It wasn't until that spring into the summer that we started noticing some signs, but still didn't know that there was a recession. So, in August, in September – that's when it really hit us and was clear that there were problems and then the rest of that year. Fortunately, President Obama got elected and immediately went to work in January or February of 2009, but we had massive cutbacks in service. We did our best not to lay people off and that's not to contrast Philadelphia with many of the other cities that had massive layoffs, and we raised taxes numerous times, both for the city and then subsequently the school district of Philadelphia which was helped by the economic recovery funds from the Obama Administration, but then because of its own financial circumstances, then went into its own financial spiral. So, it was 4 years, ’08, ’09, ’10, ’11, into ’12 of constant cutting, constant raising taxes and really having to be careful how we took care of the taxpayers’ money. It was a mess, quite honestly. I mean, that’s a technical term. It was really tough and all of the mayors, all of the cities across the country were going through the same thing. So, given that history and the differences now with Covid-19 and then the events of the past week, 10 days, this recession which we’re now officially in a recession seems tougher, harder, deeper, with a greater impact. You just said a million and a half public employees losing their job. Jason will know this better than me. I think the number back in the Great Recession was about 700,000, and the government didn’t make people close their businesses, as Heather talked about. The government made everyone basically stay home, unless you were an essential worker, worked in the supermarket, a pharmacy or somewhere in that situation. I don’t get it why the federal government doesn’t think they have a role to play in helping cities and states or that PPP or other measures are the be all and end all of their work. What’s really getting ready to happen –- I’ll close with this at this moment -- is cities will probably have to raise taxes again on the same citizens who can’t afford it in the first place. That makes no sense whatsoever.

MR. SHAMBAUGH: Thanks. It’s not the happiest note to end on, but I think it’s an important thought.

MR. NUTTER: I’ll try to do better later.

MR. SHAMBAUGH: I don’t know that it will be easy. Jason, turning to you, I want to talk about you. You obviously were sitting there as the recession was raging and trying to figure out what to do with fiscal policy. One of the things that was one at the time was more state and local aid. I wanted just to hear from you a little bit about the important of aid to states and local governments on the one hand and how you might see as making that automatic so that we are not in a situation where we are waiting for someone to get around to doing it next time. It’s something you wrote a chapter about in our book, *Recession Ready,* last year. I just want to hear from you a little about why it's important to make it automatic, why you would do it, why it's important, do you think.

MR. FURMAN: Thanks, Jay. Thanks, Heather, and thanks especially to Congressman Beyer for his leadership on this issue. This used to be a topic that nerds talked about in Nerdy corners, and I'm just thrilled that Congress is taking it so seriously. Nothing ever happens very fast in Washington, but to move in a year's span from a book to actually legislation being put forward, advanced, and supported by influential people is very, very fast by Washington standards. Unfortunately, very, very fast is needed right now, given how quickly this crisis is unfolding. I, over the years, have often gotten the question, what do you most regret from your time in the Obama Administration? I certainly regret that we didn't pass common sense immigration reform. I regret that we weren't able to do cap and trade for climate change, which we tried to do in our first year, but both of those, a huge amount of effort went into them. They are definitely more important than automatic stabilizers. The one place where I felt just partly even my own fault was that when we did the Recovery Act, we did a good job of having an initial response to the crisis, but we put ourselves in a position where we could be held hostage going forward, where that response could end prematurely and where we didn't do anything to help with the next recession, though one that in the aftermath and consequences we're dealing with right now. In part, that's because it's politically difficult for all the reasons that Congressman Beyer was talking about. But in part, we hadn't actually worked out the details of what we wanted to do, and everything was being legislated so quickly and Congress didn't quite know how to write it all down. This volume can't solve the political challenges, but it has, I think, I hope helped solve a lot of the technical challenges and meaning now, the obstacle now is merely political will.

In terms of state and local, in particular, macroeconomics

is notoriously hard to get very precise estimates of anything because you can't really run experiments where like this economy gets an interest rate cut and that economy gets an interest rate increase. Then you compare them. We did give different amounts of money to different states last time. Part of those differences were quasi-random and there have been, I think, it was 7 papers, many of them in top journals that have been based on that variation in state and local assistance from last time. They have very robustly and consistently found that that state and local assistance had a large multiplier, at least 1.7 dollars of GDP added for each dollar of assistance to states and localities. That calculation is just about GDP. It doesn't tell you anything about what the dollar itself is buying. So, you're getting an extra $1.70 of GDP or more, and you're getting more teachers or more parks or more health care or more whatever it is that states and localities do. Matt Fielder and I and Willie Powell put together a proposal for the federal Medicaid match that would make that match a function of the unemployment rate in states. It had a number of advantages. The Medicaid match has already changed every year, based on economic conditions. It just is based on how your income compares to the average so that it has not countercyclical. This would make it countercyclical. It’s a straightforward formula we put forward. The dial we recommended would on average close about two-thirds of the budget gap in states during recessions, and it would mean that the heroic effort we did in 2009 and ’10 to get assistance, but then in 2011, ’12 and ’13, that assistance was gone. The growth rate was 0.6 percentage points lower per year for 5 years, I estimated. We could avoid falling into that problem again. So, Medicaid is, I think, an essential tool that we have because it is related to health. It’s already matched through the states to do this going forward.

MR. SHAMBAUGH: Thank you. That’s helpful as a specific way we could combat some of these problems. I want to bring things kind of forward to today a little bit and think, Mayor Nutter, turning to you, looking at what cities are facing today. You touched on this a little bit in your last answer. They’re facing a pandemic. They’re facing a recession. As we said, it’s a recession that we literally engineered, effectively.

They are also coming out of facing very, very broad inequities that both the pandemic and the recession have highlighted in some ways where you've got African American communities that are more likely to be essential workers and more likely to be infected by the pandemic and also facing 17 percent unemployment, the unemployment rate going up last month, not down, like it did for the country over all. So, I guess I'm just curious, how you see the challenges mayors are facing today, especially relative to what you were facing and what type of help you would want for them coming from the federal government and what you worry about if it doesn't come.

MR. NUTTER: Well, a couple of things. Part of what I worry about is, to some extent, unfortunately some of what we just saw in the past week and continually in America, although in the last few days have certainly been very, very peaceful in just about all of the4 cities across the country. You cannot separate now the events of the past week or so from the impact of Covid-19 and the even longer standing of our issues of race and discrimination, racism, and discrimination. That has been longstanding, crying out by Black people, Latino's, and people of color for a long, long period of time, combined with everybody stuck in their house for 80 plus days and being unemployed. The official unemployment rate is never the actual unemployment rate, certainly in many, many cities. It's not the unemployment rate in West Philadelphia. That's for sure. And it's not the unemployment rate in many, many cities, espe3cially for Black people and Black men in particular, Black women as well. So, there is a lot of pent up anger and frustration without support from the federal government. Those who can least pay are going to see their taxes raised. They are also going to see a cutback in services. Mayors are having to make some pretty tough decisions, which unfortunately many of which will fall even harder for people who are lower income, lower socioeconomic state of life. So, again, we really do need the federal government to stop debating whether or not cities and states need funding or we're going to wait and see what's going on. Job training, we see every measurable sector of society, its deficiencies laid bare by Covid-19 when, back in March, K-12 systems and higher education systems said okay, we need social distancing and containment of the disease to occur. Everybody go home; we're going to do remote learning. Great. If you have access to the internet and a computer, which again in Philadelphia, at least, it was shown that many of our students did not have access to the internet and don't have a computer. So, the district went out and bought 50,000 chrome books. I applaud that, but literally it took a pandemic for that kind of situation to happen. So, again, those students, mostly Black and Latino in the Philadelphia school district will be even farther behind their counterparts in suburban areas and in other places that literally can spend more money and have more resources. So, we've got to bring back some notion that cities and states are part of the United States of America and that federalism is somewhat alive in this country. Otherwise, cities will suffer. More importantly, people will suffer.

MR. SHAMBAUGH: Thank you for that. Jason, along those lines, kind of suffering that would happen, in a perfect world, back in the Recovery Act in 2009, all the Medicaid matching was done automatically forever thereafter or at least maybe slightly after that. You could say last May everyone read your chapter in the book and just passed that immediately, but as you said, that would have been kind of light speed action that wasn't really realistic. What if nothing does happen this time, kind of Mayor Nutter's point of what he would be seeing of the cities? What are we thinking for both states, but also for the economy over all if we don't actually find a way to get more support to state and local governments right now?

MR. FURMAN: I think it has consequences, just to put it in very sterile economic terms, for both the demand side and the supply side. On the demand side, you have a contraction by states and localities by call it $500,000,000. That's a bit more than 2 percent of GDP. It then has a multiplier. So, that takes a chunk off of economic growth. It takes an amount off that could delay the amount of time it takes us to get back to where we started all of this, by about a year. So, in some sense, it sets us back 1 year's worth of economic growth. In terms of jobs, that's a very large number of jobs. It could be more than 1,000,000,000, A lot of the jobs that have been lost so far appear to have been temporary furloughs but those become permanent job losses in that scenario. In terms of the supply side of our economy, we are facing in part a substantial, what's called a reallocation shock, where a lot of jobs are going to be permanently lost. People are going to have to find new jobs. In some cases, they will need to find jobs in new industries. Well, one of the really important sets of institutions for that is community colleges which offer training, which offer skills, which help people learning new ways. So, setting that back will also set back the ability of our economy to make the adjustments it needs to, and none of this is even addressing the biggest supply side issue, which is t3he biggest problem our economy faces, is a deadly virus that is out and about, and constraints with states dealing with that deadly virus will have more harmful effect on the economy than anything else I could imagine. The Heroes Act only paid in some states some of the expenses associated with Covid, not even all of them, let alone replacing the revenue lost.

MR. SHAMBAUGH: Thank you. We got a few

questions over Twitter as people saw this event happening. I wanted to turn to a few of them with both of you. One of them, Mayor Nutter, goes to you most directly, but, Jason, to you maybe as well as a follow, but how do we make sure resources get to the people who need it most, and in particular if you think, so what if the 3 of us got what we wanted and there was aid to states passed in legislation soon or even aid to states and cities? How do we make sure that money filters down to th4e cities that need it as desperately as you convey, but then also within a city, how did you make sure it would get to the communities that needed it most?

MR. NUTTER: The first thing is the best way to make sure that money gets to the cities is to give it to the cities, no disrespect to the governors, but sometimes as Mayor Leo Bagossie (phonetic)used to mention, sometimes when the money goes to th3e states, it literally gets spread around like peanut butter on a slice of bread. Everybody gets a little bit but no one ever really gets what they need. So, directing to cities, I think is th4e first step, with whatever provisions, conditions, et cetera, et cetera, but not too extreme. We've got to fill out forms and make sure you're spending it okay, just like we did during President Obama's administration. Second, hopefully the cities have started to do a bit of a scam. What are you doing with these small businesses, many of which have been devastated, as Jason alluded to? Some may never come back. So, either how do you support small businesses? How do you support your start-up community and your entrepreneurs, commercial carters, as well as job training again for those jobs that possibly are not coming back and the community college example, as Jason laid out, critically important? Some people may just kind of take a break or want to change professions. We need to upgrade other skills and making community college, at a minimum, as affordable as possible, if not as close to free as possible, is really going to help a whole lot of folks in this circumstance. Lastly, economic development, investment in projects, our Philadelphia city hall, in the midst of the recession, tremendously helped by Tiger Grant, as one example. We completely changed the front door, the front yard, if you will, of Philadelphia’s city hall, $55,000,000 project, $15,000,000 Tiger Grant. We would have never been able to do the project without it, put 1,000 people to work over a 20 plus month period of time. So, economic development projects are one of the quicker ways to get people back in the economy to get things moving.

MR. SHAMBAUGH: Thanks. And, Jason, I guess I’d like to ask you from a similar prospective, kind of especially to Mayor Nutter’s point of let’s give money directly to the4 cities in some cases. So, your proposal, using AFMAD, or the Federal share of Medicaid spending is very much a way to get money to the states broadly. So how do you see that as helping down at the local level? How does that filter down from your view?

MR. FURMAN: First of all, I think, and you see in the Heroes Act, Congress used multiple tools to get money to the states and cities. That’s the whole point of what I’m saying. One was effectively a block grant and it was; a portion went to states, a portion went to municipalities. Second was AFMAD, and there’s a lot of revenue sharing within states for cities. Then the third was supporting education. So, I would put forward one tool. If you put pressure on state budgets, that’s going to take pressure off municipality budgets, but I wouldn’t use right now, especially given the very serious circumstances we’re in, multiple tools, not only the one that I put forward which is fine.

MR. SHAMBAUGH: Thanks for that. Another question that came in, someone asked cities were already struggling, that they were already in many cases, in pretty serious trouble financially across the country. This wasn’t from the questioner’s point of view, but I would add to that it seems paradoxically the challenges both some cities and some states were facing fiscally before this crisis started has made some people want to help them less, and just say, well, it’s your own fault you were in trouble, then setting aside the fact that the pandemic and the recession has made things far, far, far worse, regardless of whether you started off in trouble or not. So, Mayor Nutter, I would just turn to you and just ask, how do you figure out how much you separate the structural problems that were there before that maybe you have to deal with in a broad way from the kind of what the economists call the cyclical problem or the things that are really caused by this current recession and pandemic.

MR. NUTTER: I hope I don’t offend anybody, but maybe I will. I just think that kind of mindset, I mean it’s just really dumb. You know, many of the cities didn’t create the problems that they had from the Great Recession. I don’t know that there is anyone out there who would say that it was cities’ faults, or metro regions’ fault, what happened back in 2008, ’09, ‘10, and ’11. And some were literally still recovering from that, just getting back to those, whether levels of employment, or levels of service, and the like. This was a worldwide pandemic and the government told everyone to close. Unless the city was literally on the verge of bankruptcy and done documentable things that showed fiscal incompetence, their part of a state, the states are part -- I mean we’re all Americans here. That’s part of my view. Part of the role of the federal government is to try to keep it all together. If somebody has been fiscally reckless, okay, fine, they should certainly pay a penalty for that, but there’s no way in the world that so many cities, so many governments, so many counties, so many states, all suddenly became fiscally irresponsible while at the same time, virtually every business in their city also happened to shut down, where people stopped paying their taxes, stoppe3d paying their property tax, business tax and the like. You can't separate these things. It's like somebody trying to take the salt out of the soup. Once it's in, it's all in there together and what we should be trying to figure out is a holistic approach to lifting everyone up. We could fight some of these political philosophical battles later on. At the end of the day, we're all Americans, and many, many Americans are or potentially will be hurt by the lack of action coming out of Washington, D.C., in partnership with cities and states. That, for me, is really kind of the bottom line.

MR. SHAMBAUGH: Thanks. Jason, a question that is probably a good one for you is someone was asking how do we allocate the money fairly across states? So, in particular, to your point, there are different mechanisms tat you might use, some for states, some for cities, some that are helping both, but there are some people, I think, that are worried that in some cases, if you are given almost a flat amount to everyone, that small states might get more or that places in both cities and states that really haven't been as impacted by either shutdown or the virus wind up getting just as much money as the places that are suffering more. So, what do you think of as kind of the best way to gauge how much help a place needs or how you would structure that help?

MR. FURMAN: So, first of all, I can tell you what I think. Members of Congress care more about places than they do about any other aspect of economic policy. So, you can do an incredibly technically nerdy formula for the EITC and Congress might want to pass your formula into law. You do the same thing for something like this and it will be get changed a bunch. By the way, I don't think we should be squeamish about some of those changes. If you have to give a little bit to every state, including the small ones that may not need it as much, in order to get it passed, that's a whole lot better than doing nothing. I think one should put forward good ideas which I'll say in one second what that might look like, but I don't think one should be too incredibly squeamish because you might end up with nothing as a result of that. I would do it in proportion to economic distress and in our paper in this volume, Matt, Willy and I proposed your employment rate relative to your own state's historic average, with the idea being it is meant to deal with a state that had a deterioration and was worse than it normally is relative to a structural benchmark. I don't think it would be crazy to use the absolutely unemployment rate. Right now the two are very similar because unemployment everywhere is so far from the history any state has had, but I would largely do it on the basis of economic distress. IF you think you are dealing with a Covid emerge3ncy, there have been other formulas that have incorporated the degree to which your state has been effected by Covid and the like, I think on a going forward basis for the part that is drawing the replaced lost revenue. I would do it proportional to economic deterioration and make it as simple as possible.

MR. SHAMBAUGH: One question that I would like to ask both of you that I have seen a few people raise around the state and local issue is the question of the fiscal year, and the idea that July 1st is the start of the fiscal year for, I believe it's 46 states, and that a lot of cities as well. Is that something we should be thinking of as kind of a cliff for some sort of nonlinear? There's going to be a big shift in how they behave and we need to worry that if the aid doesn't get there before July 1, we're in trouble, or is it more just this needs to get done. There is no magic date. We just need to get the help to who needs it.

MR. NUTTER: If you want me to go first, unlike the federal government, the cities don't have a printing press in th4e basement. They usually have in their charter or somewhere in their code or the state statute that you have to have a balanced budget by the 3ende of th4e3 fiscal year. It's on the edge of hysteria that deficit spending is really not allowed, certainly frowned upon by the agencies. You just start to get in more and more trouble and your credibility starts to wither. So, cities will be forced without any additional assistance. They will balance their budgets, but it will be ugly, just ugly. Here is the thing we know about politics, something the legislature and the executive. People will take the amount of time they have, pretty much right up to the hour and the minute. Just why having a balance budget requirement, having a set date is so critical, because it drives -- it should drive behavior up toward hopefully a logical conclusion. If there is no date of, hey, we'll get to it when we get to it, who knows what they will do. So, I think the cities and the states should keep that pressure on. We have a fiscal year for a reason. We have these laws for a reason, to ensure fiscal stability and fiscal discipline. When the Congress wants to do something, wild horses can't stop them. When they don't want to do something, wild horses can't make them. They were going to pass PPP, no matter what anybody said about it, how it worked, in terms of where or anything else. They were committed to it and that's it. They need to do the same thing for cities and states, a little less on the politics, a lot more on the policy.

MR. SHAMBAUGH: Jason, I'd like to actually flip that question, along this idea of balanced budgets and the fact that the federal government doesn't need to and that's what makes it able to help the cities and states in this way, and ask, if we do see this recession drag or even if it's not technically a recession because we've grown some, if the recovery is very, very slow and we have unemployment rates that are quite high in growth and slow for a while, at what point do we worry about the spending or is now not the time? Is there a point where you worry that we can't actually provide any more help, whether it's to the states or to the unemployed or to the economy more broadly?

MR. FURMAN: Yeah. I mean I can imagine that we would be at a place where we need to worry. I would always be worried. If all you care about is fiscal sustainability, you need an economy to pay back your debt and if your economy goes away, you can't pay back your debt. I would almost always be worried about the economy, not that there is a radical change in interest rates and our ability to borrow and all that. We can revisit this conversation, but I don't expect that to happen, don't think we should do anything in anticipation of it happening. The only thing that Congressman Beyer said that wasn't 100 percent up to nerddom was he talked about the nominal interest rate being just above zero. I would have talked about the real interest rate, the interest rate adjusted for inflation. That's negative, which is to say when we repay money right now the federal government, we're repaying more in dollars but those dollars are being worth less and so, it's actually effectively negative interest rate right now. So we have a massive scope to go as long and as big, and as big as is neede3d.

MR. SHAMBAUGH: Okay. Thank you. I guess it's just a plug for the book and automatic stabilizers broadly, I guess, the argument would be, if you said all these things on economic triggers, you won't spend the money if it's not needed. You're only spending it when in fact it is. I think we are broadly out of time here. I'm getting the signal. I want to thank both Mayor Nutter and Jason for a terrific discussion on these topics that are really important to a lot of people today. Hopefully, your words were heard by some people and everyone will just take your advice very quickly.

MR. NUTTER: That would be amazing. Jay, I want to say to you and Heather, I want to give a big shout out. I'm sure you guys have a lot of meetings and a lot of discussion about the perfect product placement of th4e book and how both of you were able to get it just right in the shot, right over your shoulder. Not a lot of people could pull that off, but that's a hallmark of Brookings. Just some of the work that you do. Thanks for letting me participate.

MR. SHAMBAUGH: Thank you. Thanks again to Congressman Beyer for helping headline this e3vent and to Heather for moderating that first panel and for her partnership, I should say, and Equitable Growth's partnership in putting together this book. Thanks to everyone and thanks to all of you out there for watching and we'll sign off now. Thanks very much.

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