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The States and the Great Lockdown

Ben Bernanke, wrote an excellent article in the July 15 *New York Times* entitled "[Ben Bernanke: I Was Chairman of the Federal Reserve. Save the States.](#)" In this article, Chair Bernanke notes that in the 2009-2010 recovery effort to the "Great Recession", Congress responded with a stimulus package of nearly \$800 billion. However, that stimulus was partly offset by cuts in spending and employment by state and local governments. As a result, unemployment stayed stubbornly at levels of 9 and 10 percent in 2009 and 2010, and fell only slowly through the succeeding years.

Why is that? The federal government can spend without limit and has been doing so recently. These expenditures have made "The Great Lockdown" somewhat less bad than it might have been. Unemployment has been well over 10 percent, but much less than the 20 percent that many (including your blogger) had feared.

The problem, notes Dr. Bernanke, is that the states cannot spend without limit, and must run balanced budgets. If their revenues fall, their expenditures (on schools, roads, and other governmental items) must fall. These reduced state expenditures will essentially "undo" the stimulus that the Feds have provided. We could be stuck with double digit unemployment for months if not additional years.

The cure is for the Feds to GIVE money to the states. It's not like there is nothing to spend it on. Re-opening the schools will cost billions of extra dollars to make them safe for students and teachers. Michigan's roads still "suck", and will suck for even longer if maintenance is deferred. Additional monies to support Medicaid for those who have recently (and perhaps permanently) lost their jobs and their health insurance will also billions. What are we saving it for?

Senator McConnell has asserted that they don't want to bail out states that have been reckless with their spending. How is preparing schools for students "reckless"? How is making the roads (one could dare say in Senator McConnell's home state of Kentucky) passable "reckless"? How is protecting the health of the poorer state residents reckless, despite the fervent efforts of Texas and Florida to continue to deny them enhanced Medicaid?

This is not only humane policy, but also good macroeconomics. Let's try it.

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