How federal direct payments can help states and cities weather the crisis

As communities deal with the coronavirus crisis and resulting economic turmoil, direct cash payments at the federal level can supplement local efforts, relieving some of the pressure on state and municipal governments. More cash in people's pockets will keep families financially secure and safe at home in the immediate term, as well as stimulate local businesses, fueling the economy when the time is right. Throughout the recession and recovery, regular monthly direct payments will stimulate spending and generate much-needed state and local revenue to drive the economic recovery across the country.

STATES AND MUNICIPALITIES WILL PLAY AN ESSENTIAL ROLE IN THE RECOVERY

State, local, and tribal governments are critical to keeping people physically safe and financially secure during this crisis. Governments at every level are working together to ensure that Americans can meet their basic needs for the duration of this crisis and after. While the federal government is leveraging its considerable resources to provide broad relief, state and local leaders' role is on the front lines, tailoring policies to keep their communities safe during the public health crisis and mitigating the economic fallout.

Direct cash stimulus from the federal government will make it easier for state and local leaders to do their jobs. When budgets are strained during a recession, states rely heavily on cuts to balance their budgets. During the Great Recession, most states made deep cuts to core public services like education, health care, and other parts of the safety net. In response to the current crisis, major cities are already contemplating substantial cuts, and states are facing massive projected budget shortfalls. As with the last recession, federal aid to state and local governments will be absolutely necessary to supplement local relief efforts. This means significantly expanding on the CARES Act's $150 billion to state, local, and tribal governments.

Along with aid to states, the CARES Act also provided almost $300 billion directly to individuals as cash payments, an insufficient but necessary lifeline flowing directly into households in every state and city in America. This cash is helping people meet their most basic needs, like paying the rent and putting food on the table, relieving pressure on already overwhelmed local safety nets that many are turning to for food and housing assistance.

In the next round of stimulus relief, Congress should authorize more aid to state and local governments to fund the most critical programs, and it should pair that with bigger, regular, lasting direct cash payments to households that continue until the economy recovers.

Cash payments help residents and local businesses, boost the economy, and generate much-needed revenue.

April 28, 2020

DIRECT FEDERAL PAYMENTS CAN AUGMENT STATE AND LOCAL EFFORTS

Direct stimulus payments will help immediately – keeping families financially secure and safe at home. When it comes to injecting resources into communities, the power of the federal government is unmatched. Providing cash directly to households is a simple way to reduce the strain on state and local resources and do the most good for the most people in uncertain times. Cash from the federal government will help ensure that families can pay the rent and put food on the table while they shelter in place, so state and local governments can focus more of their resources on flattening the curve.

When the time is right to reopen the economy, cash to households will stimulate Main Street businesses. To keep people safe, state and local leaders have put measures in place to slow down economic activity, but the economy hasn't completely stopped. Families' basic needs are enormous right now, and cash is a lifeline.

Early indications are that spending spiked immediately after 80 million households received CARES Act payments in mid-April, much of it on basics like food and gas. Regular cash payments from the federal government will keep families afloat now and, when the time is right, they will provide the fire power to restart state and local economies.

As restrictions lift, the reopening of the economy will be uneven. Regular cash payments can smooth the transition, helping people make ends meet and getting money flowing again through local businesses.

These payments to households will also free up resources so state and local governments can balance the increased need for social services against stretched budgets.

Throughout the recession and recovery, cash in people's pockets will generate state and local revenue and drive the recovery. Projections are that state revenues could fall by more than a quarter of state totals over the next fiscal year. One reason is a sharp decline in state and local sales tax, because people are spending less on taxable goods and services. This will inevitably result in cuts to the safety net, at exactly the time people need it the most. Giving people cash, especially low- and moderate-income families, will curb some reliance on social services and stimulate spending, generating more state and local sales tax revenue.

Using the EITC as a comparison, several studies estimate that the EITC generates at least $1.50 in local economic activity for every $1 sent to local communities. Through the one-time cash payments in the CARES Act, nearly $5.5 billion on average will be injected into each state through direct payments to households. Ongoing direct cash payments will be critical to stimulating state and local economies and driving the recovery, economic activity that will generate state and local tax revenue to ensure critical services continue.