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Justin Bullock:

Okay. Welcome back to another recording of Bush School Uncorked. I'm your host, Justin Bullock. My cohost, Greg Gause, is here thankfully with me this week. How are you, Greg?

Greg Gause:

I'm good. Sitting outside on the patio in my rocking chair, so I've got that going for me.

Justin Bullock:

Yeah. You stayed outside this week. I dropped the ball and moved back inside. It's kind of hot today. It was getting up to like 90 degrees here.

Greg Gause:

It is a little hot. It's 90 degrees here in the Brazos Valley. Let's hope that kills the coronavirus.

Justin Bullock:

Let's hope so.

Robert Greer:

Solid plan. [crosstalk 00:00:41]. Solid plan.

Justin Bullock:

We also have with us two guests who've been with us on previous podcasts before, but not in the live Zoom format, Professors Ann Bowman and Robert Greer. Thanks for being with us tonight.

Robert Greer:

Thanks for having us.

Ann Bowman:

Yeah, definitely.

Justin Bullock:

I wish we were gathering in person where we could have a glass of wine together and hang out around a table. How pleasant would that be?

Greg Gause:

Much more pleasant than what we've got now.

Robert Greer:

Someday, Justin.

Ann Bowman:

Yeah, I'm pretty [crosstalk 00:01:18].

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Justin Bullock:

Okay, so... Yeah, one day.

Ann Bowman:

Yeah, I'm pretty tired of these four walls.

Justin Bullock:

Yeah. Yeah. I thought I was going to really enjoy spending a lot of my time on Zoom, but it became a lot of time, very quickly.

Greg Gause:

No. If I don't see another Zoom box, another box of... like the Hollywood Squares or the Brady Bunch, I know I'm dating myself, I'd be perfectly fine.

Justin Bullock:

All right. We're going to come back to that Brady Bunch reference at some point, Greg. Let's move on forward. This is our last of the Close Quarters recordings for the semester, so thanks to those of you that have come out with us, and hung out, and asked questions, and been a part of the live show. It's nice to move from not being able to do them at all to at least being able to do them virtually, and hanging out with you all here. So, thanks for that.

Justin Bullock:

We're going to take a little bit of a break after this. Greg and I were just talking before we started recording. Our plan is to record maybe one episode a month over the summer, check in with you. But if we get any crazy ideas along the way, we might also send out some notifications through our regular means and let you know that we'll be doing a recording again. So, I think that sounds like a good plan for the summer. What do you think, Greg?

Greg Gause:

All good. I don't think I'm going to be doing a huge amount of traveling.

Justin Bullock:

Yeah. I don't think you should be doing any traveling, Greg. Stay away from those airplanes. All right. One of the things that we talked a little bit about a couple of weeks ago but that we really wanted to dive into with some guests is what are going to be the consequences for other levels of government, not just the federal government that's in the news a lot, but also state and local governments.

Justin Bullock:

But before we do that, I'd like to give our guests, even though they've been with us a couple of times before, an opportunity to tell us a little bit about them and a little bit about their intellectual history and what brings them to this conversation. Dr. Ann Bowman, if you would go first, that would be wonderful.

Ann Bowman:

Okay. Thank you, Justin. I'm delighted to be here. I guess I would say that my interest is in US state and local governments. That's the research I do, and the courses I teach typically involve that. I've been particularly interested with the coronavirus and its impact on state and local governments, so I think people are in for an interesting conversation this evening.

Justin Bullock:

Great. Well, I could not think of one of two any better people to be having this discussion with. One was you, of course, and my friend here, Rob Greer, Professor... Dr. Rob Greer. Thanks for being with me, buddy. Give us a little bit of your background, if you don't mind.

Robert Greer:

Absolutely. Happy to be here. My focus, like Dr. Bowman's, is on state and local governments, but my particular bend is on financial management, budgeting, and particularly debt management. I do a lot on local governments' strategies for managing debt, and a lot on specialized forms of local government, special districts, the debt that they carry, their management strategies, how they finance infrastructure, and things like that.

Robert Greer:

Like Dr. Bowman, I also have been following this pretty closely. I have an interest on the impact that COVID-19's going to have on local governments and specialized governments, and I've been working on a short piece that we hope to get up pretty soon on that. So, happy to talk more about that later as we go.

Justin Bullock:

Wonderful. Well, I have a question for you, and it's from the president writ large to all of us on Monday on Twitter. I think it's the... at least question that's at the forefront of what's being talked about in the policy world. I want to know how you think about these questions. You don't have to respond directly, but just how... How might we think about the challenges facing state and local governments, as this is our question that's going to be posed. So, here it is.

Justin Bullock:

Why should the people and taxpayers of America be bailing out poorly-run states, like Illinois as an example, and cities, in all cases, Democrat-run and managed, when most of the other states are not looking for bailout help? I am open to discussing anything, but just asking.

Justin Bullock:

We have two of the smartest people I know about financing and how local and state governments work. What's going on, and how should we be thinking about how this is impacting state and local governments, and should the federal government be helping them? And either of you can go first.

Ann Bowman:

Yeah, that's a difficult place to start, in so many ways, because the statement is so outrageous on its face that it's difficult to respond without emotion, quite honestly, to respond in a way that really reflects the fact that... First, at the outset, from the first, folks look oftentimes to the national government in times of crisis. I think we can assume we're in a time of crisis. We oftentimes look to leadership at the

national level, and we're certainly not getting it in this case. Or, the leadership we're getting is so flawed that it's almost laughable.

Ann Bowman:

So, the statement is outrageous that it is simply blue state governors who are seeking so-called, air quotes, bailouts, when in fact, state and local governments are the heartbeat of what goes on in this country. Working with the national government, it only makes sense. The national government has a better fiscal position to work from. It can certainly borrow money at very, very, very low interest rates. It can certainly take on debt. So, as a consequence, it is much better positioned to help out state and local governments in this time of crisis, regardless of the political partisanship of a state's governor.

Justin Bullock:

That's a great start. Thanks, Ann. Rob, you look like you have something to say. Go ahead.

Robert Greer:

Yeah, I got a lot of things to say. Like Ann, I think I would start by just rejecting the fundamental premise of this statement or question, is not just blue states that are asking for, quote, unquote, handouts. If we look at the states that are net recipients of federal dollars, these are not typically blue states. If you look at the entire package of federal aid that goes out, and you include in that unemployment payments and Medicaid payments, SNAP payments, these are going to a lot of red states. This is not a red state, blue state type of issue, where only Republican-run states... Or, only Democratic-run states are asking for handouts. That's just not true. I reject the fundamental premise.

Robert Greer:

But even if you took the premise at face value, why you should bailout states, there's just a long lists of reasons for that. We can get into all of them, but I'll start with something that Ann touched on, which is this is... If you talk about what people need to survive, not even talking about kick-starting the economy or anything like... just shelter in place and survive. They need running water, they need electricity, they need to be able to get to and from work if they're essential workers. That's transportation, that's water, that's utilities. These are local government services. And so, if you force local government services to go belly-up financially and they can't provide core services, you can't have safety at any level.

Robert Greer:

If you go to what the president actually wants, which is economic recovery, kick-starting the economy, you have to start with not laying off all your public employees, which is a huge fraction of the total workforce. If you're talking about bankrupting states, I can't... If we want to get into Mitch McConnell's statement today, if we talk about bankrupting states, if you talk about letting local governments fight this on their own without any federal help, then there are going to be layoffs. The first thing you do in cutback management is freeze your hiring, get rid of all your temporary employees, and then start looking at furloughing and putting people out of work, which is the exact opposite of what I think the president would actually want us to do.

Justin Bullock:

Okay. All right. So, since I started you off with a little bit of a charged question, albeit fairly because it did come from the president, let's step into this a little bit more. We've been talking mostly about the

importance of staying at home, as we were trying to flatten the curve. We were worried about overburdening our hospitals. Depending on exactly what the numbers look like, we have flattened the curve, or flattened the curve in lots of states. Not everywhere. Some states are starting to open up some more businesses.

Justin Bullock:

So, we've been talking a lot about this at the federal level, but why do states need to be, quote, unquote, bailed out, or why do states need to receive handouts? What's coming... Rob, you alluded to this a little bit, but paint us a little bit broader picture of what the best guesses are right now of the do nothing path, or the let states fend for themselves path. What does that look like?

Robert Greer:

It depends somewhat on the states, how hard they've been hit, and then also what their revenue structure looks like. We've got two sides of this. We've got increased costs to state and local governments. They have to spend more to provide core public services, to make sure there's not disruptions. Water systems and power systems are guaranteeing there are not going to be any shut-offs during stay-at-home orders, things like that. Hospitals obviously need more support.

Robert Greer:

So, local governments have to spend more. That's one side. And then on the other side, they're receiving less in revenue, in tax revenue. If you are a state that relies particularly heavily on sales tax, like the state of Texas for example, and nobody's out there shopping and buying things, you're collecting a lot less in revenue. And then on the flip side, for states that rely a lot more on the income tax, more people out of work, less going into that system, so they're collecting less in revenue also.

Robert Greer:

So, you've got declining revenues, you've got increasing costs, and that's the only math you need to understand to understand budget deficits.

Justin Bullock:

Yeah. Ann, do you have anything-

Ann Bowman:

Yeah, I think-

Justin Bullock:

Yeah, go ahead.

Ann Bowman:

Yeah. I was looking at something the Center of Budget and Policy Priorities have done, said it should be something like a \$500 billion shortfall as a consequence of this, and if there is no additional federal aid through fiscal 2022. And that there seems to be a misperception, at least on the part of some folks at the federal level, about how flush states are with cash. States do have rainy day funds, budget stabilization funds that they can access, but even if they were to drain those funds, the Center for Budget and Policy Priorities estimated a \$360 billion gap.

Ann Bowman:

So, the point is, states, while they did end the last fiscal year with money in the bank, that is true, the demands that are going to be made on them and the revenue shortfalls that are going to exist as a consequence of the coronavirus, they're not going to be in any shape to flourish without... to survive, maybe, without federal help. I have to just say something about Mitch McConnell and that bankruptcy notion. It was hilarious... Well, I don't know what it was. He did make me think of the president, because he-

Justin Bullock:

[crosstalk 00:14:29] humor there, of course. Good point.

Ann Bowman:

Well, he did make me think of the president, because he does have some experience with bankruptcy. But states don't go bankrupt. That's not how our system works. Even though federalism is a relatively flexible system, bankruptcy for the states is not part of it. So, I just think there's some misperceptions and I think it's become so partisanized and politicized. But yeah, states need the money. They're not bailing out their bankrupt pension systems, or whatever the president was saying about Illinois. Yeah, that's not what's happening.

Justin Bullock:

Okay. I want to come back to that, but I see Faith, which means somebody here with us has a question. So, Faith, please read us the question.

Faith:

Yeah. So, going off that last point, is that shortfall at the federal level or is it cumulative for the states?

Robert Greer:

That study that Dr. Bowman referenced is from the Center of Budget and Policy Priorities, and I believe it was cumulative just for the states, or is it possibly state and local governments? I can't remember.

Ann Bowman:

Yeah, it was states-

Robert Greer:

But it's not at the federal level.

Ann Bowman:

Yeah, state and local. Yeah.

Robert Greer:

Yeah, but not the federal level.

Ann Bowman:

Right. What is it... Rob, you mentioned employment. Isn't it something like state and local employment is, what, 13% of employment in this country? Round figures, 13%?

Robert Greer:

Right. Yeah, yeah, yeah. Something like that. And again, lots of regional variation there, but when you're talking to Justin's kick-off question about red state, blue state, for a lot of rural areas, the public sector, the school district, the city, university, for small university towns, the public sector, public employees are the largest employers. If you look at the South and Midwest, it's Walmart and public sector. Those are the largest employers. So, you're absolutely right. I don't know the number off the top of my head, but that sounds right.

Ann Bowman:

Okay.

Justin Bullock:

Hey, Greg.

Greg Gause:

Yeah.

Justin Bullock:

There he is. I was getting worried. I think this is the longest time on the podcast that we've ever gone without you speaking.

Greg Gause:

Well, we've actually had people who know what they're talking about talking. But I have a couple of questions. One is about debt. You referenced the fact that the federal government can borrow at a lot lower rate. Could you talk a little bit about, or Rob, states go into the debt market; what kind of problems do they face? Roughly, what kind of interest rate differentials are there between state government debt and federal government debt?

Greg Gause:

We know right now that the federal government can borrow almost unlimited amounts of money at pretty low interest rates because people are looking... people with money, the few people who have money, are looking for safe places to put it, and treasury bonds, we think, we hope, are the safest places in the world. So, what's the differential between state borrowing and federal borrowing?

Robert Greer:

There's a lot of factors that go into what that differential actually is. For every state government, they've got their own credit rating, and then all the municipalities under them will have their own credit rating, that sort of vary depending on their risk profiles. But then depending on the purpose of that debt, and what the pledge is to repay that debt, you'll even get variation in what the yields will be on those bonds.

Robert Greer:

So, for example, if the state wanted to build a highway and issued a bond to build a highway, that might issue at a different rate than if they were going to borrow a bunch of money to prop up their unemployment insurance program or something like that. So, there's a lot of variation even within state for purpose, and then of course across states, depending on whether you're Texas versus Illinois versus Louisiana versus New York or something like that. But, the municipal market has been a roller coaster over the last month. Initially, it spiked really low as investors were fleeing out of other markets, and then it spiked really high as it-

Greg Gause:

All right, and Robert, I think our listeners have to know that when we talk about a debt market going up, it means the interest rates gets lower because more people are putting money in, and so you can sell your debt at a cheaper interest rate. So, when the debt market goes up, it's good for states and locals. When the debt market goes down, it's bad because they have to pay higher interest rates to attract the investment.

Robert Greer:

Absolutely. Yeah. When a state or local government sells a bond to accumulate debt, to pay for something, they sell it at an interest rate, and they're trying to get the lowest interest rate to save themselves money. And of course, they have to compensate the investors for borrowing the money. And the investors are looking for the highest interest rate. The basic point I was trying to make, though, is there's been a lot of turmoil. Investors didn't know what to do. Initially, they fled into the muni market, which is a relatively safe market historically. And then they fled out of the muni market as it became clear that revenues for cities were going to drop, and they were going to be relatively risky, and nobody quite knew how to evaluate that risk because it's unprecedented.

Robert Greer:

But in general, there's still... even at their worst, munies are issuing bonds and have to pay a much higher rate than the federal government. The federal government can issue at, at this point, so cheaply that it really does make a big difference. The other thing to consider is the potential of balanced budget requirements and other types of restrictions that states put on local governments or states are under themselves that may restrict the amount of debt that they can issue. As we know, the federal government has no qualms about just issuing debt and issuing debt and issuing debt with no end in sight. So, yeah, there's-

Greg Gause:

And thank god for that during the Great Recession of '07-'09 and right now. Ann, can I ask you about the politics of this? I truly do not understand it. I've stopped listening to the president on these kinds of things, but Mitch McConnell is a extremely smart guy and a very successful political operator. And I just don't understand why he would start talking about this, because I think one of the things that we've learned over the last 30 years, if not in the last three years, and I think the last three years have just reemphasized that point, is that nobody cares about debt, from a political point of view. It used to be that, "Oh, Democrats didn't care about debt and Republicans did care about debt." Ronald Reagan took us down the road that Republicans don't care about debt.

Greg Gause:

And we just had a massive tax cut, shepherded by Mitch McConnell, in the first two years of President Trump's term. Why would Mitch McConnell decide that right now, you got to raise the issue of, "Oh, boy, we got to watch how much debt we're getting into"? Because, and I'll shut up after this, if you believe that Mitch McConnell is actually in a competitive race in Kentucky, the last thing that he would want, it seems to me, is to have his democratic opponents say, "Mitch McConnell's the reason that all the teachers and firemen and policemen in Kentucky have gotten fired, because he wouldn't allow the federal government to help the state of Kentucky out when it was in need." Ann, do you have a sense of the politics of this?

Ann Bowman:

Interesting politics to be sure. And you're right, and Mitch McConnell is a very successful politician. He is from the state of Kentucky, as we know, and the state of Kentucky is one of those states that actually receives more money from the federal government than it sends in terms of the dollars that are sent by Kentuckians to the feds. So, it's a state that oftentimes is a beneficiary of federal dollars. And you would think Mitch McConnell would want more federal dollars in his state.

Ann Bowman:

Now, with regard to the coronavirus, there has been some back and forth with the governor, the current Kentucky governor, who's a Democrat. There's been some back and forth on that. I did wonder whether Mitch McConnell, his political ambitions, whether perhaps they've plateaued and he's happy where he is and will be perhaps willing to back away from this, or thinks he's so strong that regardless of what he says he will be reelected.

Ann Bowman:

The politics are fascinating. You were talking about kind of the switch in terms of Ronald Reagan and his perspective, and other Republicans. In the old days, it was Republicans were all about power to the states, and it was Democrats who were, "No, let's centralize power at the national level and gets things done." That's been flipped around in the current administration as well. As you've seen democratic governors argue for the 10th amendment, which we typically hadn't seen in the past.

Ann Bowman:

So, the politics have been turned upside down a little on this. There's been some question about Mitch McConnell and the sincerity of the issue on bankruptcy and those kinds of things, and whether he was just throwing that out as, perhaps, just kind of a discussion point, if you will, but isn't serious about that. He just wants to tweet Chuck Schumer one more time and Nancy Pelosi yet again. So, I'm not sure, but politically, it doesn't make a whole lot of sense in terms of where Kentucky is and their being beneficiary of federal dollars.

Justin Bullock:

I see Faith again... Oh, go ahead, Rob.

Robert Greer:

I was just so... So, Dr. Bowman is the expert on the political side of this for sure. But I will just say a couple of things that I've seen, sort of question how much of these types of policy positions that come out of Senator McConnell are really Kentucky priorities or are donor priorities? Mitch McConnell gets a

lot of money from outside of Kentucky. I think all of his top 10 donors are outside of Kentucky. He represents a more significant portion of a Republican party than that's not Kentucky-based. So, not all of his policy priorities and political statements may be reflections of Kentucky and what's in his best interest from a traditional political posturing type standpoint.

Robert Greer:

The other thing that I've seen suggested, and again, I don't know, I'm not an expert in this, so I don't know how much of this is true, but, we have to remember bankruptcy is a legal process. Bankruptcy is a process where federal courts get to decide what the priorities are and who gets paid and how much they get paid. And if you have faith that the courts are more aligned with your interest and how you think states should be spending money or not raising taxes, then you may be more happy allowing the federal courts to decide those types of issues rather than the governors of those states. So, it becomes a sort of different type of power dynamic, and you add the court and their judgment-making process into what would typically be a sovereign state process.

Justin Bullock:

Thanks. That's great. Faith, I see you out there. Go ahead.

Faith:

Okay. So, going back to some previous points that were made, do you guys anticipate the bond ratings will get some forgiveness in the coming months if local governments tap into their rainy day funds?

Robert Greer:

So, we first have to assume that local governments have any rainy day funds to tap into. And that's not always a great assumption. But you have to remember, bond rating agencies are there to give their opinion on default risk, and it's not for the benefit of local governments. It's for the benefit of the investors that are buying those bonds. So, they're not in the business of being sympathetic or cutting anybody slack. If they think that their investors are going to receive more value in a harsh sort of pessimistic view of states and their ability to tap into rainy day funds, then that will be reflected in the bond ratings themselves. They serve the investors, not the states or the local governments.

Justin Bullock:

Ann, any of this you want to jump in on?

Ann Bowman:

No, I think Rob's got it.

Robert Greer:

Great.

Justin Bullock:

I see Faith again. Faith, is there another question?

Faith:

There is another question. And then going back to the Mitch McConnell discussion, could it be that McConnell is concerned about a Tea Party style revolt if he doesn't appear to be ultra right-wing in terms of monetary policy?

Justin Bullock:

That's a good question.

Ann Bowman:

Certainly. We've seen some interesting protests at state capitals over the last couple of weeks. Everything I've read suggests those are not spontaneous gatherings of folks, that they're very well-orchestrated from folks who are interested in these... The primary protests have been against governors, democratic governors typically, who have adopted stay-at-home orders and shutdowns that are, in the phrase that's been used or the word that's been used, are too draconian. Those kind of anti, let's get the economy back on its feet again, get us back to work, those protests. But there's also been a few protests in blue states against governors not doing enough by a lot of local officials and some individuals as well.

Ann Bowman:

So, in response to the question, there could be some concern on McConnell's part about not being far right enough on some of these questions.

Robert Greer:

Yeah, I think that's certainly true, especially considering the point I made earlier about the donor base and who he's representing there. But I do want to point out something. I believe the question specifically put it in terms of monetary policy, when a lot of what we've been talking about so far has been fiscal policy, has been direct support or direct spending from the federal governments to businesses, to individuals, and to potentially state and local governments, which the CARES Act does provide some money to all of those. But some really interesting things are happening on the monetary side. The Federal Reserve has established what they called the Municipal Liquidity Facility. And I don't want to get too wonkish depending on where people want to talk about, but it is a-

Greg Gause:

Get as wonky as you want be.

Robert Greer:

So, the Municipal Liquidity Facility is a really interesting monetary tool. It's something new. It's something that has never been done before. It means the federal government is directly buying short-term government bonds. It was two years and then yesterday they changed it up to three years. So, I believe it's counties with populations of at least 500,000 residents and cities with populations of at least 250,000 residents are eligible for this program where their short-term bonds up to three years can be purchased by the Federal Reserve directly, which is a new market mechanism that we're not seeing. It's meant to provide short-term cash flow relief for local governments, which they need.

Greg Gause:

Rob?

Robert Greer:

Yeah.

Greg Gause:

Rob? Since there's no bidding process on that, how are interest rates set?

Robert Greer:

That I am less sure on. I do know they have to be investment grade. There is a cutoff between what the ratings are. I don't know exactly how the bid mechanism is going to work in terms of determining price. I do want to stress that this is not for all types of local government borrowing. It is relatively short-term. It is for cashflow purposes, because of payment delays, things like cities not requiring their property taxes to be paid on a specified date and allowing some flexibility on that. They may get some relief on short-term borrowing to fill those gaps. These are tax anticipation notes or revenue anticipation notes for cashflow management type issues.

Robert Greer:

But anyway, so there are some things happening on the monetary side through the Federal Reserve in addition to the fiscal policy side.

Greg Gause:

Rob, is there a Federal Reserve facility for state bonds to be bought?

Robert Greer:

So, the municipal facility included states on the onset. Yeah. So, when we consider the municipal market, it is state and local governments are all in the same market. Yeah.

Justin Bullock:

Okay, so this is one tool that sounds like it's providing some relief for states in responding to COVID-19. We've talked about the dangers of the federal government not helping states out. What types of things can the federal government do and do we think or do you think they should be doing to give opportunities to states to help protect basic core... state and local governments to help protect basic core services? What should we be hoping to see or what would be nice to see?

Ann Bowman:

In terms of policies adopted, or...

Justin Bullock:

Yeah, to assist state and local governments. If they're going to have this 500-something billion dollar shortfall, what types of things can the federal government do that we think maybe they should be doing to help protect states to provide those basic services?

Ann Bowman:

Well, I guess I would think about it in terms of picking up a greater share of some jointly-operated programs like Medicaid, for example. Some of the things that states spend a lot of money on. If the

federal government could increase their participation in that, their financial participation in that, that would certainly help state governments. The point I really wanted to emphasize was, again, I think we have leadership at the national level, especially in the executive branch, that is not as informed about the federal system and how federalism functions and how it can be effective. But there's a real question about the variation of what states are doing, and I've heard people refer to it as a patchwork of policies. And that strikes me as potentially a good thing, that you can have states innovating or trying new ideas, and et cetera, et cetera. And you can see states moving more quickly than other states.

Ann Bowman:

So, you get a lot of variation, and I think that is a good thing. There's certainly a role for the federal government. We've certainly seen this in terms of one of the things that Andrew Cuomo raised when he was talking in one of his many press conferences about the fact that states were competing for ventilators and just how ridiculous that was and why wasn't there some sort of centralized... a mechanism for distributing this kind of equipment and PPEs and all these other things that states need. And that's with the comment that the president made about, well, the federal government is not a shipping clerk. Well, no, but the federal government can play a greater role in providing some guidance. Certainly there's some good science that can be done at the national level. That would help state and local governments a lot.

Ann Bowman:

One of the interesting experiments I was hearing about was one that involves the Mayo Clinic, the University of Minnesota, and the state of Minnesota in developing some efforts at vaccine and those kinds of things. So, the federal government can certainly stimulate innovation at the state level. I would think that would be an effective use of federal government resources.

Justin Bullock:

That's great. Rob?

Robert Greer:

Yeah, I think the non-fiscal answer, the answer that doesn't just mean throw more money at state and local governments, would be exactly what Dr. Bowman highlighted, which is leadership, and having a unified message that's based in science that allows governors and other states the political protection, in some cases, or ability to collaborate that they're currently not receiving.

Robert Greer:

But I think the real answer if you would ask a governor or a city manager is, they need direct federal support. They need some way to close the gap between how much revenue that they projected to generate and how much revenue they've actually generated since this has started. At the federal level, there are some programs that the federal government is directly involved in that they could directly prop up such as unemployment insurance. States are seeing just record-breaking amounts of unemployment insurance claims. Those systems are strapped for cash. They will start to run out of money, and the federal government can... They have through the CARES Act, but can continue to provide direct support for unemployment insurance programs as sort of a baseline. And then healthcare provision also a necessity.

Robert Greer:

But beyond that, I think one of the really concerning things that we're seeing is political maneuvering where the administration provides disincentives for shelter-in-place orders, trying to encourage states to open back up to jumpstart the economy even when it's not the best health policy strategy because he's holding money over their heads, right? He's saying, "We're not interested in bailing states out unless they're interested in reopening their economies and getting things going." That's political maneuvering where you hold the carrot out in front of them and say, "If you reopen your states, then maybe there's some more money at the end of the line for you." That's a really pervasive strategy that just is not going to be in the best interest long-term from a health standpoint or from an economic standpoint. So, I think starting with that would be a good place.

Ann Bowman:

Let me also add, one of the most recent things that's occurred is the US Attorney General Barr directing all the US attorneys to be on the lookout for states that are violating individual rights, which is certainly a good thing, states should not be violating people's constitutional rights. Basically it was another one of these warning shots that states could face challenges in federal court if they don't move quickly enough to relax regulations and restrictions that they've adopted. That's not leadership and support and guidance. One might say it's interesting bullying.

Justin Bullock:

Yeah. It doesn't seem like what you're looking for for relationship building and trust in a federalist system to help coordinate efforts to the most effective way possible. Doesn't look like that. Faith, I see your face. How are you over there? I guess we have another question, so let's hear it.

Faith:

This is a very fun question because it pertains to something that I care a lot about. So, the food value chain presents high challenges in this health and economic crisis. Are there initiatives to fix some of the issues the farmers and food intermediaries are facing? Should this come from the federal or state level?

Justin Bullock:

Good question.

Ann Bowman:

Yeah, that's a good question, and it does make me think of the food, energy, water nexus, but I'll let that go for a moment. That's an interesting question. Agriculture is an important part of many states. It's important to all of us of course, but it's an important part of many states' economies. There is clearly, in a lot of instances, interstate effects as well. That strikes me as something that the federal government could handle much more effectively than individual states, when we're talking about agriculture and the food supply and the logistics of food transportation and getting goods to markets, et cetera, et cetera. So, I would argue I'm totally happy for the federal government to play a leadership role in that.

Robert Greer:

Yeah. I think I would say there are roles for both the federal government and state governments to play. When you're talking about agricultural subsidies, you're talking about there's a long history of the federal governments and agricultural subsidies, and they are well-equipped and have the infrastructure

to push monies out to farmers. And they can certainly do that in probably a faster and more well-equipped way than states can.

Robert Greer:

When you're talking about food safety and the food chain as it pertains to getting safe food through the rest of the economy, a lot of that's going to come down to state and local health inspectors. There are federal health inspectors, but state and locals, and the shelter-in-place policies, the guidance for reopening the economy, the testing facilities. We haven't talked a lot about testing and paying for testing. But you would certainly want to prioritize people on the food chain to be able to get tests before they spread that by infecting anything along that food chain.

Robert Greer:

And so, I think prioritizing testing for those different steps along the food chain is certainly one strategy. But that's going to come... Again, we're such a fragmented healthcare system that there has to be some sort of leadership signal from the top, and that has to be implemented by the states. In a lot of cases, it can't be a mandate. In some cases, it can. But this requires cooperation, it requires coordination, it requires people being able to talk to each other and not every issue be a political issue, which is unfortunately not the reality that we're currently living in.

Ann Bowman:

Yeah. And I would also add that we've seen some states behaving very cooperatively with one another. There's the northeastern group of states that started out with New York and Connecticut and New Jersey, and we saw it in the West Coast as well with California, Washington, and Oregon. Now there's a Midwest version and other states have joined the northeastern regional. So, there are some things, and we should acknowledge, I think, that there are some things that can be done on a regional basis that can be absolutely effective as well, rather than states acting individually or the federal government playing a role. There are mechanisms for regional cooperation across states, even as [crosstalk 00:43:54].

Robert Greer:

Absolutely. And regional cooperation across local governments and between state and local governments. There's a lot of great things, a lot of really talented and hardworking individuals at the state level and local levels that are coordinating in various response efforts. So, yeah, we shouldn't be all doom and gloom. There is a lot of good that's happening right now. But when the question is, what more can we be doing, the answer automatically goes to all the things that we're not doing particularly well.

Greg Gause:

Ann and Rob, let's go back to this idea that we're going to have some kind of federal pot of money for state and local. How would that be distributed? Would it be distributed per capita? How would the federal government decide which states and which localities get what percentage of that money?

Robert Greer:

Okay, Greg, so what I've seen sketched out is an octagon where you put all the governors in the middle, and then they each get a chair, and then last man standing gets the pot of money. That's what I've seen.

Greg Gause:

Could be the last woman standing. [crosstalk 00:45:07]

Robert Greer:

Or woman standing, of course, of course. Sorry. Sorry.

Greg Gause:

I think the governor of Rhode Island would have a chance at that. She seems pretty tough.

Ann Bowman:

Yeah. Anybody who'd try to keep out cars with New York license plates out of Rhode Island, which, what does it take, 20 minutes to drive through it, is... Yeah, she's pretty feisty. Yeah, it's an interesting question about distribution, though, and I guess per capita certainly makes some sense. The level of whatever the mechanism is, maybe a severity test, how badly, how significant is the problem in your state, that kind of a thing.

Ann Bowman:

So, there are different mechanisms that can be used. Congress is quite adept at building in these distribution mechanisms and in everything it enacts. It can involve politics, of course. It probably will involve politics. But there's certain ways you could design these mechanisms. Per capita certainly comes to mind. There's been a lot of discussion about number of cases and sometimes there's... it's less about the rate of infection or the rate of hospitalization. It's raw numbers. So, we do need to pay some attention to the size of, say, a California or Texas vis-a-vis Rhode Island.

Greg Gause:

Yeah. And if you're going to base it on cases, then you get into the whole issue of testing.

Ann Bowman:

Sure. Yeah.

Greg Gause:

Which has been very... We haven't had enough testing anywhere, but it's been very different from state to state.

Ann Bowman:

Yeah. There was an interesting proposal by a Nobel winner of some kind who was talking about everybody should be tested. That's where the money should go, is to testing. Test everybody periodically and just get this over with.

Greg Gause:

Oh, that's Paul Romer. Yeah.

Ann Bowman:

Yeah, that's what he wanted to do.

Greg Gause:

Yeah.

Ann Bowman:

Yeah.

Greg Gause:

Yeah. Everybody would be tested once every two weeks. How many hundreds of millions of tests would you need just to start that?

Ann Bowman:

Yeah, quite a few. Yeah. We've been a little slow on the testing in a lot of places. Texas would be one of those places.

Justin Bullock:

Rob?

Robert Greer:

I just wanted to answer Greg's question. The rollout of a lot of the federal stimulus does not come with fine level details. They tend to talk in sort of big picture and then how the money gets rolled out has been a real problem. And so, the short answer is, we don't always know. But there has been some money... So, the CARES Act included, I think it was \$150 billion, that was direct support for state and local governments, and I believe there was a baseline of one or one and a quarter billion that was going to go to each state as sort of a baseline. And then you could have more on top of that based on various factors. That's the most general pot of money.

Robert Greer:

But then there's lots of other pots of money for health-related expenses that go directly to public health agencies at the state level or hospitals directly. And so, it's kind of hard to say how much is going in total... Well, we could say, it would take some time to go through the numbers, how much in total is going to each state, because of the way it's divided up. So, when you pump more money into SNAP, when you pump more money into unemployment insurance, when you pump more money into hospitals and community health centers, different states are going to receive different amounts of that based on how many people and the intensity of the problem when you go to funding testing kits and things like that.

Robert Greer:

But when we're talking about the less strings attached, broadest sense of here's a billion dollars to fill in some of your revenue, there seems to be some appetite for a base level that goes to all states and then some gradual sort of difference on top of that.

Justin Bullock:

Thanks Rob. Faith, I see you. Is that because we have another question? All right, let's hear one final question.

Faith:

All right. So, this is kind of similar to the last one, but considering that the small and medium enterprises are hurt in the crisis and that they create employment, what is the level of priority given to these entities and should these initiatives come from the federal or state level?

Robert Greer:

So, the problem is in the definition of small and medium enterprises, and who gets to qualify as a small or medium enterprises.

Greg Gause:

We saw that in the first round of these, quote/unquote, small business loans that went to Harvard and Shake Shack and a lot of places that you wouldn't normally think of as a small business.

Robert Greer:

Right, yeah, so Ruth's Chris was getting the small business loans and there was a lot of headlines like that. In terms of policy priorities, the way it was stated is I think it was of the \$2.3 trillion in the first round of the CARES Act, \$600 billion went to quote/unquote small businesses, with another \$500 billion going to, quote/unquote, large businesses with special carve-outs. The airline industry got its own pot of money and things like that.

Robert Greer:

So, the small businesses were supposed to get as much, if not more, than than the large businesses, but the terms are really fuzzy. Depending on how the franchising arrangements and ownership structures for some of these corporations work, you can qualify when a lay person would look at that and go, "No, that's a chain restaurant. They don't qualify." But each independent operator owns its own facility and therefore they are a small business under these guidelines.

Robert Greer:

SO, it's a really tricky question, but an important one. We want to help support the small and medium sized businesses. I think you're exactly right, but implementing that... So, this is my high level for all of my clients. All policy is implementation. So, how you implement a policy like that is the real important nuts and bolts, and we failed the first time around. We failed the first time around, and it's going to take some refinement in subsequent stimulus packages.

Justin Bullock:

Yeah. It was kind of failed at every front across unemployment insurance, across Small Business Association. We weren't able to... Granted, it is, as the word is, unprecedented demand in these institutions, and I think they deserve some leeway for that. But, yeah, handling the rollout has, from anyone that I've talked to that's trying to get access to any of these direct benefits, has been tough, I think.

Robert Greer:

Right.

Justin Bullock:

Okay. So, we're closing here on the hour mark. So, in respect of everyone's time, I just wanted to say thanks to Professor Ann Bowman and Professor Robert Greer for closing down season two in the Close Quarters series where we've been talking about COVID-19 pretty nonstop now for six weeks. And this was an important piece that we had not gotten to. So, thank you to the both of you for joining and for doing it last minute, so thank you.

Robert Greer:

Absolutely.

Ann Bowman:

Happy to do it, sure.

Justin Bullock:

Greg, I guess we wind down season two now, believe it or not. We've made it through two seasons. We hope to and intend to be back in the fall with another round of podcasts. We also intend to have some limited content for you over the summer. But sadly, we will... Greg, while you'll be here and I'll be here in the fall, somebody that's part of our production team will not be here, we will be missing.

Greg Gause:

Whoever do you mean, Justin?

Justin Bullock:

I think we will be missing Faith. Faith, we appreciate all your work this year. Just so listeners know, this is the first time we've tried to do this series, first time we tried to do Zoom and video editing. Faith adapted and made all this work and handled any issues we had with the Zoom transition, has helped to handle our social media accounts, helped interact with the guest, help keep us in line.

Greg Gause:

Well, I don't.... Hold on, hold on, hold on. She didn't help keep us in line.

Justin Bullock:

Yeah, and so, she did fail in that endeavor. But we appreciate all your help. Just so the audience knows, we've doubled the amount of audience we have this year over last year's numbers. That has been in large work thanks to Faith's effort. So, Faith, we will miss you being our full-time podcast assistant.

Greg Gause:

Thank you, Faith. Best of luck.

Justin Bullock:

Okay. We will miss you. Greg, you're not getting rid off me that easily. I'll be back for the summer and for the fall, Ann and Rob, we'll have you back again next season too because it's always a pleasure to get to talk with the two of you, and to the audience, thanks for-

Greg Gause:

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And local governments aren't going anywhere.

Justin Bullock:

And local governments aren't going anywhere. No matter what happens, local governments will continue to exist.

Greg Gause:

I just got my property tax valuation. I know that the local government is not going anywhere.

Justin Bullock:

All right. Well, thanks everyone. Thanks again, and we'll keep you updated on when we'll start back up. Take care everyone.

Robert Greer:

All right, Justin. Thanks, Greg.

Ann Bowman:

All right, thanks.

Justin Bullock:

Thanks.

Ann Bowman:

Thanks.

Justin Bullock:

Thanks for hanging out with us.