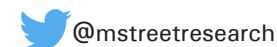


# March 2021 Newsletter

## Fiscal Stimulus: Not Enough or Too Much?



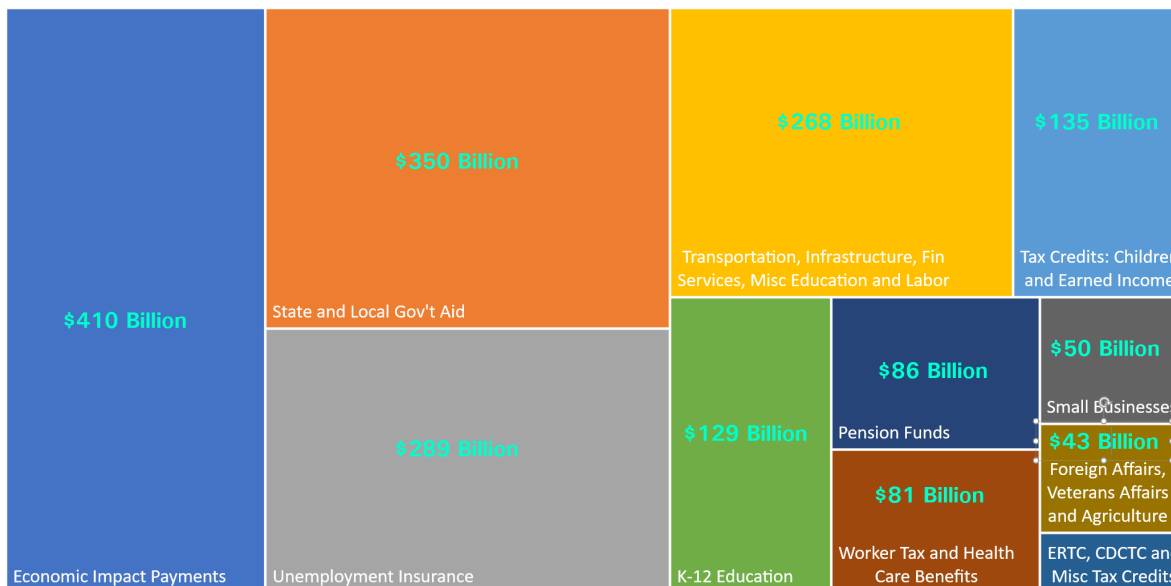
The sheer scope and scale of fiscal and monetary policy interventions designed to address the Covid pandemic will largely determine the direction of interest rates and inflation for years to come. This analysis will focus primarily on the newest relief effort, the American Rescue Plan Act of 2021, a \$1.9 trillion stimulus package, which follows (among other smaller programs) the \$2.2 trillion CARES Act of 2020. The table below summarizes fiscal injections by Congress into the economy since March 2020.

Relief Act	Date	Amount
Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020	March 6, 2020	\$8.3 billion
Families First Coronavirus Response Act	March 18, 2020	\$192 billion
Coronavirus Aid, Relief, and Economic Security Act (CARES)	March 27, 2020	\$2.2 trillion
Paycheck Protection Program and Health Care Enhancement Act	April 24, 2020	\$484 billion
Consolidated Appropriations Act, 2021	December 27, 2020 (stimulus component of a \$2.3 trillion spending bill)	\$866 billion
American Rescue Plan Act of 2021	March 11, 2021	\$1.9 trillion

For those keeping score, over the past year **Congress has spent \$5.65 trillion on Covid relief** (not including regular spending and deficit spending on non-Covid related items), **added to a Fed balance sheet that has expanded by \$3.2 trillion** (from \$4.3 trillion to \$7.5 trillion) over the past year. Without taking a political position and trying to posture as a deficit scold, we would like to at least like to raise the question of whether **\$8.85 trillion of sudden fiscal and monetary stimulus** might produce some pockets of inflation, or at least contribute to growing asset bubbles. The Roaring 20's, indeed.

The most recent round of fiscal stimulus, the American Rescue Plan Act, is a nearly \$1.9 trillion plan which can be broken down into categories and amounts as follows:

### American Rescue Plan Act: Spending by Category



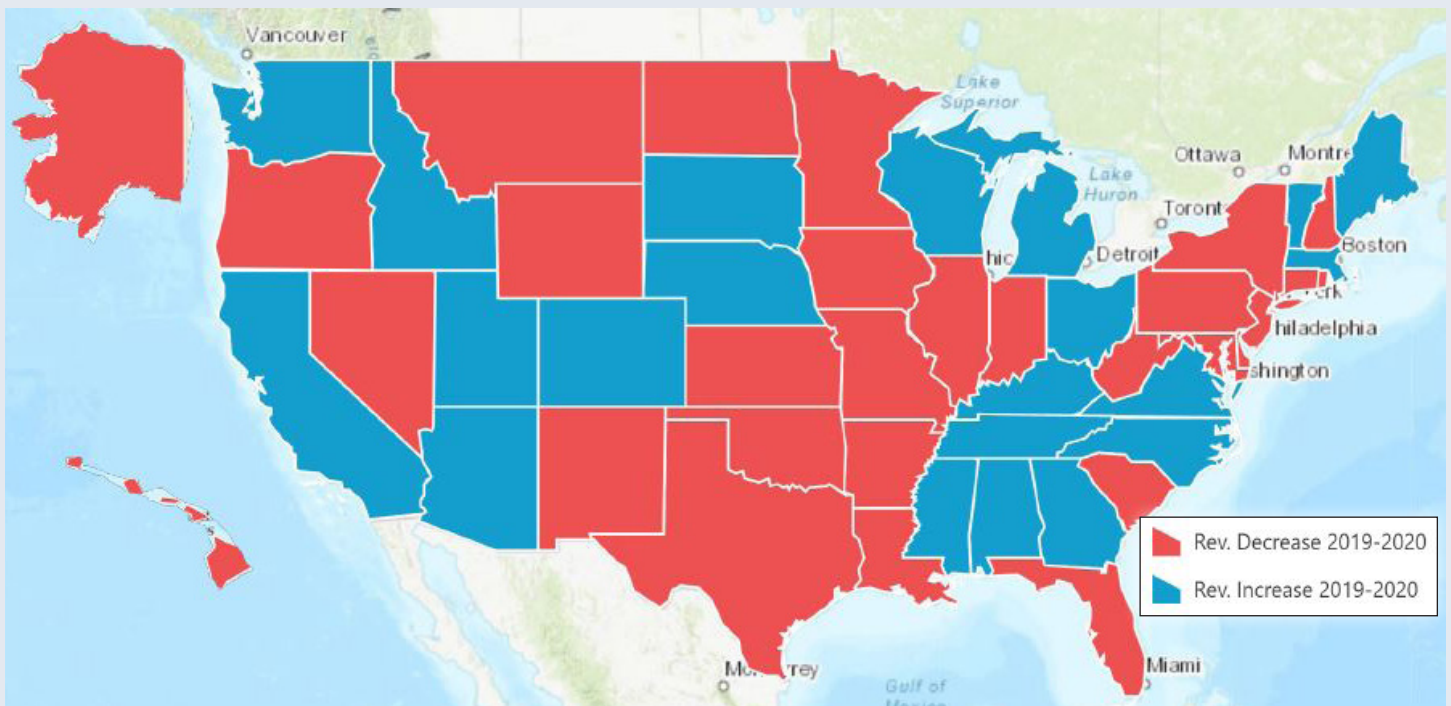
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The analysis that follows will concentrate on the state and local government portion of the economy and associated aid packages to these sectors.

To examine the magnitude of stimulus spending relative to the economic challenges posed by Covid, let's review the disproportionate amount of aid to states relative to each state's respective revenue impairment (if any). Note the following analysis also includes the District of Columbia, so numbers will sum to 51 "states."

From full-year 2019 to 2020, only 28 states experienced a decrease in total revenue from all sources, while 23 states actually benefited from revenue increases. The average revenue *decrease* for 28 states was -9.8% and the average revenue *increase* for 23 states was 4.7%. States maintaining revenue had strong population growth or are heavily dependent on upper tier earners who made gains in financial markets and weathered the pandemic relatively unscathed.

## States with Revenue Increases/Decreases from 2019-2020



In dollar terms, the combined revenue decreases from 2019 to 2020 totaled \$18.6 billion, offset by revenue increases of \$16.9 billion, for a net loss of \$1.7 billion.

So how much aid did Congress provide the state governments to fill this deficit? The short answer is that states received \$306.3 billion to cover a \$1.7 billion shortfall. You read that correctly.

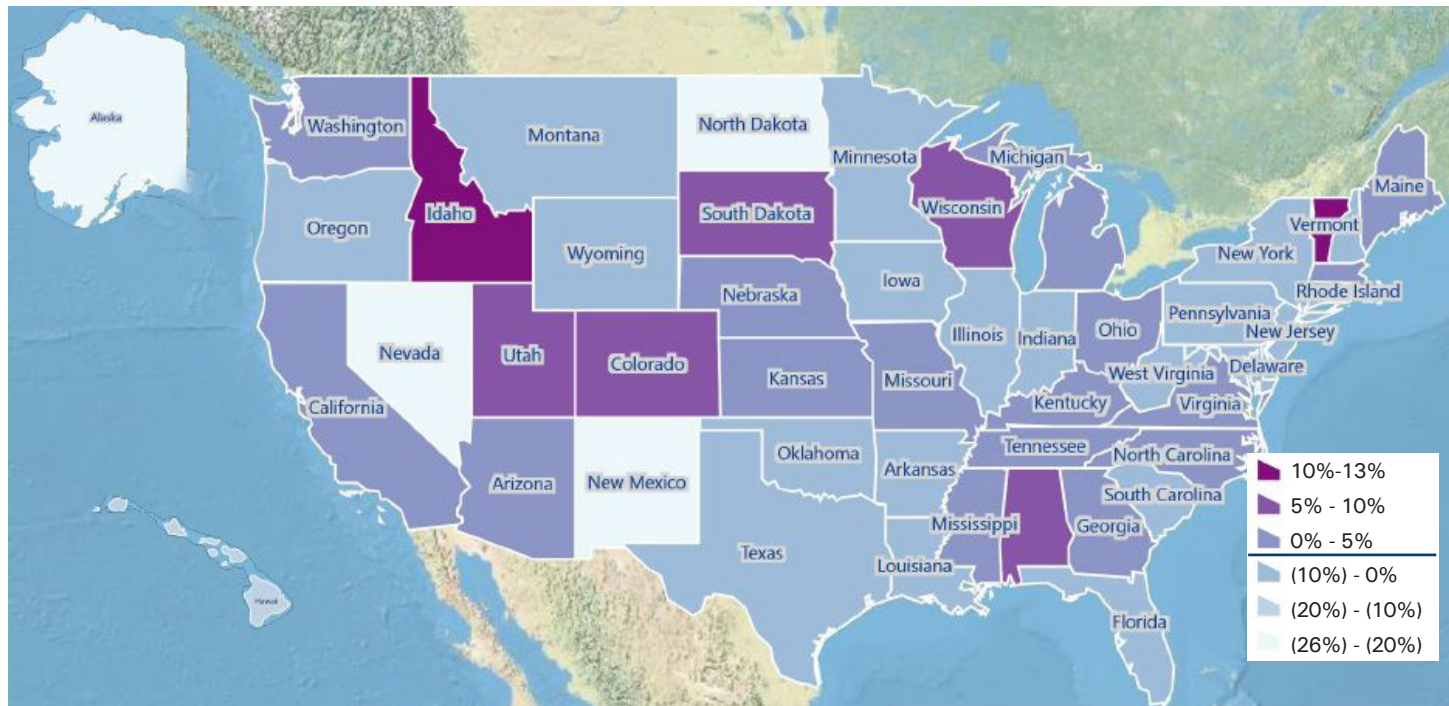
The original CARES Act provided \$147 billion in direct aid to state and local governments during 2020, of which \$111 billion was allocated to the states. Embedded in the the latest salvo (the ARP Act), total direct aid to states equals \$195.3 billion, plus another \$128 billion for local governments, resulting in ARP Act aid of \$323.3 billion. **In total, allocations to state governments have totaled \$306.3 billion and local governments have received \$164 billion, for a grand total of \$470.3 billion.** The differential between shortfalls and aid in this context is nothing short of staggering.





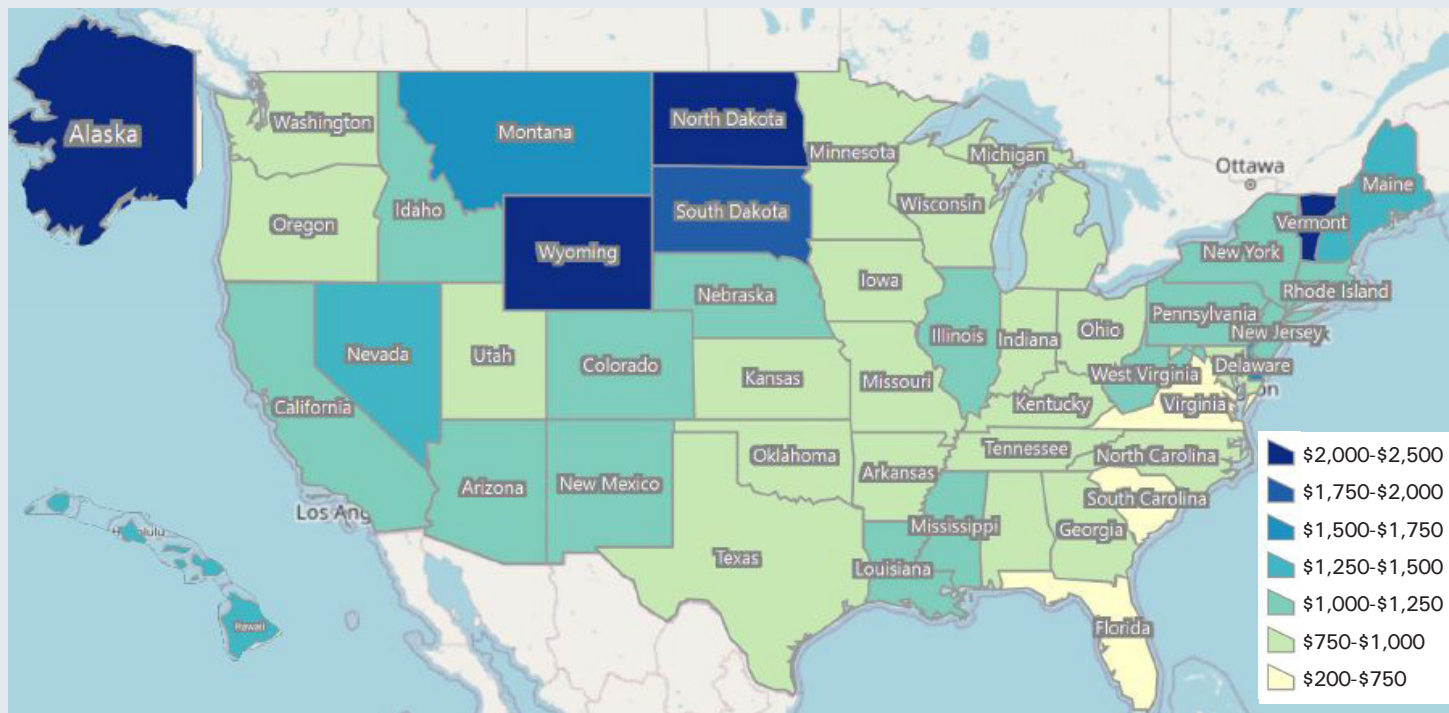
One might fairly ask if many of these dollars will be directed to remedy legacy liabilities from states failing to balance budgets, and therefore mute the sudden impact of this much capital landing in the economy. If so, state and local government balance sheet repair could mitigate inflationary effects of federal aid. But this conclusion would ignore the preponderance of experience and evidence demonstrating that if given unexpected sources of revenue, elected officials will find a way to spend it.

## % Change in State Revenue 2019-2020



The American Rescue Plan Act enacted in March allocated state aid based on seasonally adjusted unemployment and local aid using a formula factoring growth, population, poverty and housing. These allocations reviewed on a per capita basis provide some insight into which states received relatively more near-term stimulus.

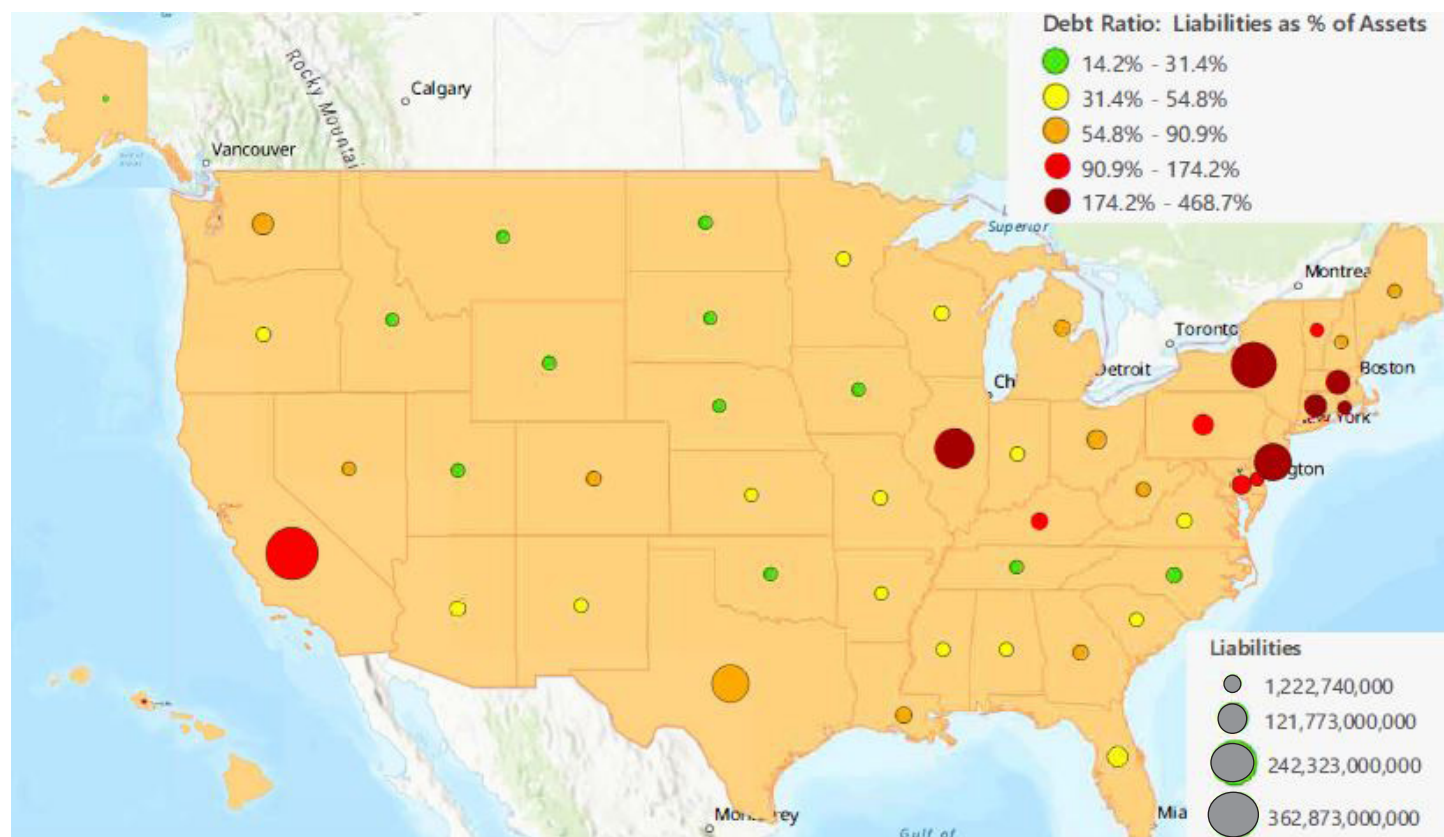
## ARP Act Total Per Capita Aid \$ by State





Lastly, we can examine existing state debt levels to estimate whether it's more likely for a given state to use Congressional aid for growth or for repairing holes from past over spending.

## Debt Levels by State



## Conclusion

Our analysis of the approximately \$470.3 billion of recent state and local government aid provided by Congress represents only 8.3% of the total \$5.65 trillion in fiscal stimulus and just 5.3% of the total \$8.85 trillion of fiscal and monetary stimulus. Nevertheless, we hope the details provided by this example provide context to the immensity of emergency measures taken in response to Covid (among other things).

It should be assumed that this level of spending has borrowed resources from the future. If these

interventions result in economic growth and increased equality without creating runaway interest rates and/or inflation, they will achieve their stated objective. If instead these measures were overprescribed relative to the size of the problem, the cost of increased interest rates and inflation could overwhelm the benefits of massive doses of liquidity. At least in the case of state and local revenue impacts, the aid provided by the CARES Act and the ARP Act **vastly** outweigh the Covid-related scope of the problem.

*Sources: Congress.gov, Tax Foundation, Reason Foundation, reported state revenue, U.S. Census data.*

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