



# AFSCME

## Legislative Fact Sheet

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### STATE AND LOCAL AID: A CORNERSTONE OF AN EFFECTIVE ECONOMIC RECOVERY

#### *States Are in Trouble Because of the Economic Downturn*

America faces its greatest economic crisis since the Great Depression – and it's causing painful budget problems for state and local governments. The ongoing sharp drop in revenues, rising unemployment and declining property values are a particularly harmful combination to state and local budgets. As a result of widening budget gaps, states are considering increasing taxes and cuts in state spending for a range of important public services. These actions slow the economy and weaken public support systems at a time when Americans need more help to make ends meet.

#### *A Substantial and Effective Economic Recovery Package Is Urgently Needed*

Congress passed a stimulus in February 2008 which helped, but the economy has continued its steep decline due to the effects of the financial crisis which is spreading from Wall Street to Main Street and to state capitols. It is urgent that Congress enact a new economic recovery plan that provides substantial increased federal funding to the states through the Medicaid program and through flexible grants to state and local governments. In 2003, Congress enacted a \$20 billion fiscal relief package for states, including \$10 billion for additional federal support for rising Medicaid costs and \$10 billion for flexible anti-recession grants to stabilize budgets and stimulate the ailing economy. Now, economists like Mark Zandi of Moody's Economy.com say, "(u)nless policymakers quickly implement a very large and effective fiscal stimulus plan, the economy appears headed for the worst downturn since the Great Depression." Without a recovery package, the unemployment rate is projected to be over 10% by late 2010.

#### *State Fiscal Relief Is a Powerful Tool to Stabilize and Jump Start the Economy*

State and local government spending is a large portion of the gross domestic product and props up America's economy during downturns. Increasing funding for states and localities will stabilize their budgets, strengthen the national economy, and maintain public services we all depend upon. Medicaid spending is particularly sensitive to economic downturns as it provides health benefits to those hardest hit by the recession. It is the largest category of total state expenditures, delivers federal funds to states rapidly and effectively, preserves health services, and reduces pressures to cut other services and aid to local governments. In addition, federal Medicaid funding can be quickly and easily increased by raising the federal share of the already set Medicaid funding formula. It is the most effective means to quickly help states and protect health care among the newly unemployed. For every 1% rise in the unemployment rate, 1.1 million Americans become uninsured and Medicaid and state health programs see one million new enrollees. Anti-recession flexible grants are also vital and enable states and local governments to invest resources in needed public services, as well as to lessen harmful effects of the recession.

Leading economists and academics support state fiscal relief as a powerful stimulus that would help reduce the severity of the recession by increasing economic activity:

**American Federation of State, County and Municipal Employees, AFL-CIO**



387 economists, including Nobel Laureates Joseph Stiglitz, Robert Solow, and George Akerlof, have called upon Congress to move quickly and decisively to pass an effective new economic stimulus package that includes aid to state and local governments.

Moody's Economy.com, Mark Zandi, Chief Economist: An “economically potent tool of the federal government is aid to financially pressed state governments. This could take the form of general aid or a temporary increase in the Medicaid matching rate to help ease the costs of health coverage ... Additional federal aid to state governments would fund existing payrolls and programs and so provide a relatively quick economic boost. States that receive a check from the federal government will quickly pass on the money to workers, vendors and program beneficiaries.” Every dollar invested in state and local government will yield \$1.38 in economic activity.

Kaiser Commission on Medicaid & the Uninsured: “New [Medicaid] spending can create a larger impact than the amount of new spending alone through “multiplier effects” because of the successive rounds of spending that occur when money is injected into a state economy. For instance, state businesses and residents spend their earnings on purchases from other businesses or residents in the state, who in turn make other purchases and so on.”

Massachusetts Institute of Technology, Simon Johnson: “Direct aid to state and local governments ... replaces money that state and local governments have been forced to cut from their budgets, it can have a very rapid effect, without the need to design new programs ... The money will go to programs that these governments have already decided are important and worth funding, minimizing the risk that the stimulus will be wasted on inappropriate ends.”

**Action Needed:**

1. **Increase Federal Funds for Medicaid.** An effective economic recovery package must include a major increase in federal funds for state Medicaid programs to stabilize state budgets and to help jumpstart the economy. The magnitude, scope and breadth of an economic stimulus package are under consideration. Economists and policy makers have called for state aid proposals in the range of \$100 billion to \$150 billion over two years.
2. **Provide Fiscal Relief to States and Localities Via Counter-Cyclical Flexible Grants.** Given the worsening budget deficits faced by most states, an effective economic recovery package should include temporary flexible block grants to enable state and local governments to continue to provide vital public services.
3. **Additional Investments to Stabilize the Economy and Spur Economic Opportunities.** AFSCME supports additional components of an economic recovery to expand Unemployment Insurance (UI), increase administrative support for UI and employment services, enhance the federal match for state Supplemental Nutrition Assistance Program/Food Stamp administration, address the housing crisis, increase infrastructure improvements including funding for needed operations and maintenance, and funds for child support enforcement, child care and Head Start. These investments help stabilize the economy and are social spring boards that give Americans the needed opportunities and supports to advance economically, which will spur short and long-term economic growth.

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