UConn report: Don't put federal relief funds under the mattress

Better to invest in economy than patch state and municipal budgets, report states

ECONOMIC DEVELOPMENT by KEITH M. PHANEUF | MAY 7, 2021 | "EXIT CLEAN READ"

Should the state invest all of its federal pandemic relief on the economy? A new UConn report says yes.

Connecticut could gain an extra 30,000 jobs and $2.6 billion in annual household income by 2024 if it invests billions in new federal pandemic relief in its economy — and not in state and municipal budgets, the University of Connecticut's economic think-tank warned Friday.

The latest report from the Connecticut Center of Economic Analysis challenged Gov. Ned Lamont and the General Assembly to finally tap Connecticut's record-setting rainy day fund to keep government programs afloat, thereby freeing federal relief to maximize the recovery from the coronavirus.

"If instead recipients push those federal dollars under the mattress, it will do nothing for the economy," wrote economist Fred Carstensen, who heads the center, and senior research fellow Peter Gunther. "It will not lead to creation of new jobs, additional household income, and that vital growth in aggregate demand."

The federal American Rescue Plan Act is pumping close to $10 billion into Connecticut: about $6 billion for state, municipal and regional governments and local school districts and nearly $4 billion more for households via stimulus checks and enhanced unemployment benefits.

But the COVID-weakened economy had analysts warning in February that the next two-year state budget, unless adjusted, would run $2.6 billion in deficit — a gap equal to roughly 6% of the General Fund. And towns say they've lost hundreds of millions of dollars in tax revenues.

How much of this $10 billion should go toward balancing their budgets? None, according to Carstensen.

"This is probably the single-most important budget discussion we've had" since 1991, when Connecticut and its shrinking defense industry were mired in recession and legislators enacted the state income tax, Carstensen said.

And while he understands the political desire to follow other states and use this huge federal cash infusion to stabilize state and local budgets, Carstensen noted Connecticut already has a mass of resources — that other states don't — to solve that problem.

Specifically, he's referring to a $3 billion rainy day fund, a projected surplus for the current year that approaches $1 billion, and improving revenue projections that likely will reduce the two-year deficit when the next forecast is issued.

“We’re going to put this under the mattress for a rainy day?” he said. “Excuse me, this is a rainy day.”

Carstensen, who frequently notes that Connecticut lagged the nation and never fully recovered jobs or wages lost from the recession of 2007 through 2009, said this is the state’s opportunity to invest in transportation and information technology infrastructure, data processing, cutting-edge technologies, job training and education.

“We’re [talking about] changing the future trajectory,” he said, adding that the stakes are huge and “there’s permanent penalties in the fiscally conservative approach.”

Carstensen ran two scenarios: one in which all governmental entities dedicate all $6 billion of their federal aid to bolster their respective budgets, and a second in which none is used.

Neither scenario is likely, Carstensen conceded, but the closer politicians get to pouring all of their dollars into the economy, the more likely Connecticut households will do the same with their stimulus checks.

In other words, get the economy running well, and shoppers — after a year of shutdowns and restrictions — will get busy.

The biggest payoff from this economic activity, Carstensen and Gunther predict, involves jobs, about 30,000 more by 2024. And given that when the pandemic began in March 2020, Connecticut still was 12,000 jobs shy of its peak from 2007, 30,000 is significant, Carstensen said.

The activity from a massive investment of stimulus dollars in the economy would trigger enough additional activity to bolster household income between now and 2024 by an average of $2.6 billion per year, according to the report.

That also means an extra gain of nearly $1.5 billion in tax revenues for state and municipal governments over the next three years combined.

Gross state product, the value of all goods and services produced here, would rise by $2.6 billion per year, adjusted for inflation, over the same period.

But Carstensen said much of those potential gains are at risk given the discussions going on at the state Capitol.

Lamont, a Greenwich businessman and fiscal moderate, wants to use two-thirds of the most flexible federal relief sent directly to the state government — about $1.75 billion out of $2.6 billion — to help balance the next two-year state budget.

The legislature's Appropriations Committee hasn't released its counter-proposal for the federal money yet, but it and another legislative panel already have taken steps in Carstensen's direction.

The appropriations panel wants to tap about $240 million from this year's projected surplus to support state programs over the next two-year budget cycle.

And the Finance, Revenue and Bonding Committee has recommended income tax hikes on wealthy households and a new levy on digital media ads.

Both committee proposals could mobilize more federal dollars for spending outside of the budget.

Carstensen added that the budget reserves that Lamont and other moderates and conservatives want to preserve will vanish one way or another if the state continues to have close to 190,000 residents receiving weekly unemployment benefits.

"The irony is if you try to preserve the rainy day fund, you're going to end up spending it that much faster," Carstensen said.