

 DATA FOR *PROGRESS*NEW JERSEY   
POLICY PERSPECTIVE 

# VOTERS SEE STATES AS ESSENTIAL AND WANT THEM TO RECEIVE AID

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September 2020

# EXECUTIVE SUMMARY

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- ▶ States and local governments now face what could be the largest budget shortfalls recorded in US history.
- ▶ Without significantly more federal aid, states are left with few other choices but to make dramatic and harmful cuts to state programs and services once thought uncuttable.
- ▶ A majority of voters (53 percent) think that the federal government should provide states with financial assistance.
- ▶ By a 25 percentage point margin voters support the federal government providing aid to states automatically once their unemployment rate rises above five percent.
- ▶ Voters support Congress establishing an entity that can loan to states by a 32 percentage point.

## INTRODUCTION

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State and local governments play a critical role in our economy, shaping the daily lives and the futures of families across the nation. They invest critical resources into the building blocks of our communities, including public schools and colleges, highways, mass transit, public-health infrastructure, and the social safety net. Workers, children, seniors, and employers all rely on well-functioning state and local governments, and this invisible fabric now hangs in the balance because of the coronavirus pandemic and its resulting economic fallout. Without significantly more federal aid, states face enormous cuts to public spending—cuts that will take money out of the economy and slow the nation's recovery. And, as with the coronavirus, these cuts will

disproportionately harm low-income households and people of color.

Unlike the federal government, states cannot run deficits and must balance their budgets every year. This means that a healthy tax base is necessary for states to serve the needs of the public during normal circumstances, and it is especially important now, when the demand for services is at an all-time high. The problem is that states collect a majority of their revenue from income, sales, and corporate business taxes—all of which collapsed once the pandemic hit. As states and localities have scrambled to contain the spread of the virus and save lives, the broader economy has ground to a halt due to necessary business closures as well as individuals limiting their travel and time spent in public.

## STATE REVENUE IS PLUMMETING DUE TO THE CORONAVIRUS

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States and local governments now face what could be the largest budget shortfalls recorded in US history. According to the Center on Budget and Policy Priorities, state revenues will plummet by a collective \$555 billion during fiscal years 2020 through 2022. Alarming, this figure is a conservative estimate since it does not include additional shortfalls faced by local and tribal governments and the US territories. These shortfalls far exceed the federal relief already given to states—including what was provided in the CARES Act (approximately \$100 billion)—as well as what states held in rainy-day funds (\$75 billion). This leaves states with billion-dollar budget deficits that must be balanced. For the nation to have a strong and speedy recovery from

the coronavirus, the federal government must provide substantial and immediate aid to state and local governments.

Most of the state revenue loss is a result of a sharp spike in unemployment brought on by the pandemic, since state income tax collections make up 37 percent of state revenue. In April, the national unemployment rate reached the highest level since the Great Depression at 14.7 percent, and a national survey by Washington University in St. Louis found that 24 percent of respondents lost a job or income due to coronavirus. In total, more than 55 million workers have applied for unemployment benefits since the pandemic hit the US in mid-March. Without a national plan to curb the spread of coronavirus, high unemployment should remain steady as positive cases flare up across the country.

Sales tax collections, which constitute 32 percent of state revenue and 13 percent of local government revenue, have also come up short as unemployment has significantly reduced consumer spending—especially in the service, entertainment, and hotel and hospitality industries. Aside from food purchases (often exempt from the sales tax) and shopping for other household necessities, families are spending less and going out less.

While the pandemic has largely spared the nation's wealthiest individuals—many of whom have seen their wealth increase by billions during the pandemic—it has dealt a blow to taxes on corporate profits, which make up 5 percent of state revenue collections. Disrupted supply chains have increased corporate expenses, and this, coupled with depressed consumer demand, has caused a sharp drop in corporate tax collections. Further, state budgets that rely on industries hardest hit by the pandemic—such as Alaska's reliance on revenue from oil-related industries and Nevada's reliance on revenue from casinos

and the entertainment sector—face even steeper fiscal challenges.

## SPENDING CUTS WOULD HARM FAMILIES AND THE ECONOMY

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Without significantly more federal aid, states are left with few other choices but to make dramatic and harmful cuts to state programs and services once thought uncuttable—and that's precisely how most states, red and blue alike, are balancing their budgets. The impact of state spending cuts are often felt in the long run, as states rarely restore funding for areas they cut during economic downturns.

Deep spending cuts have been shown to harm families and communities of color, who often depend the most on state services due to our nation's legacy of slavery and its decades of racist policies. Further, as we learned in the wake of the Great Recession, spending cuts not only deepen the economy's fall but also slow the nation's recovery. That's precisely why economists across the country are warning state lawmakers against damaging spending cuts.

During the coronavirus pandemic, state and local governments have lost roughly 1.5 million jobs since March, bringing public-sector employment to its lowest levels since 2001. Jobs in public education—teachers, nurses, counselors, maintenance workers, and support staff—have accounted for nearly two-thirds of state and local job loss. And unlike private-sector employment, which should bounce back with the lifting of state and local lockdowns, public-sector jobs are less likely to return as states continue to face severe and persistent revenue shortfalls.

In addition to layoffs, disinvestment in public services worsen racial and class inequities. For example, most states took a cut-heavy response to the Great Recession and, as a result, have crumbling public infrastructure, weaker unemployment-insurance systems, teacher shortages, and higher tuition at public colleges and universities.

## STATES NEED SIGNIFICANTLY MORE FEDERAL AID

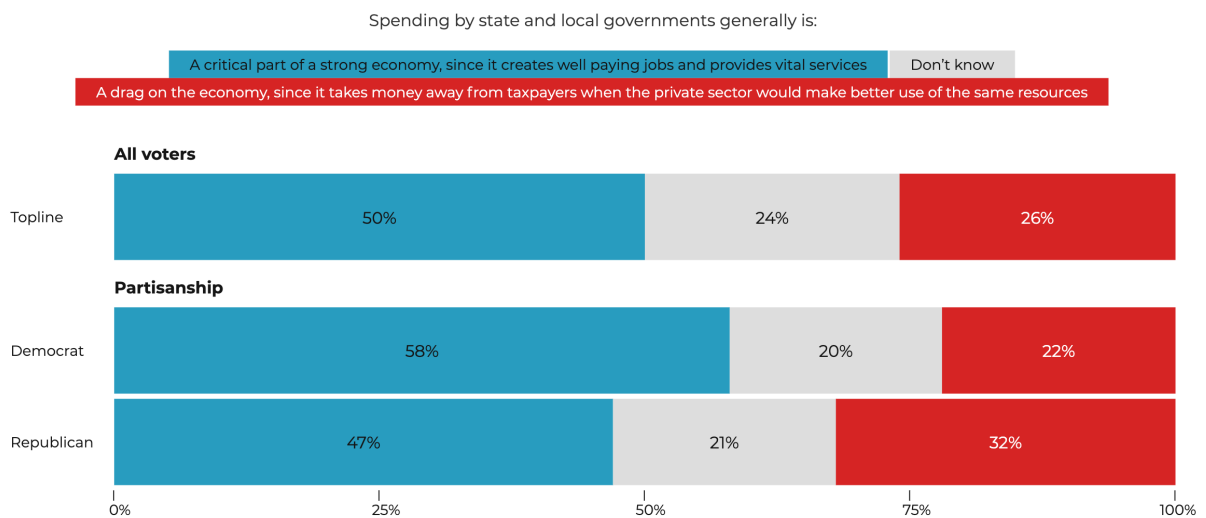
With states facing severe budget shortfalls, the federal government cannot afford to make the same mistakes of the past. Instead, it must provide

states with significantly more federal aid so that workers, children, seniors, and the broader economy not only survive but thrive.

As part of a July 2020 survey, Data for Progress asked voters about their attitudes toward the federal government providing aid to states. We tested several different kinds of messages.

First, we asked voters whether they thought states were a critical part of a strong economy. Overall, half of voters (50 percent) agree they are, while only 26 percent think they're a drag on the economy. When responses are broken down by party, we see that a majority of voters who self-identify as Democrats (58 percent) and a plurality of voters who self-identify as Republicans (47 percent) agree that states play a crucial role within the economy.

### Voters Think That States Are A Critical Part Of A Strong Economy



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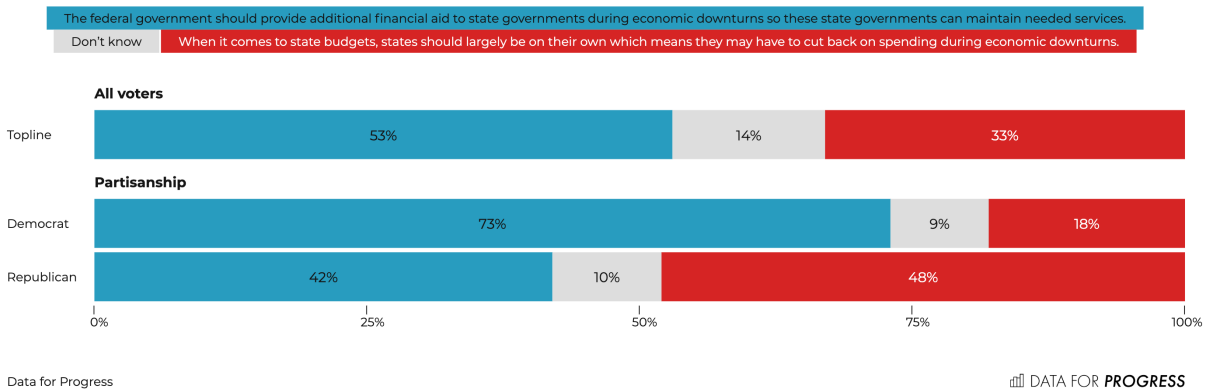
Next, we wanted to gauge voters' attitudes about the relationship between the federal government and the states. We find that a majority of voters (53 percent) think that the federal government should provide states with financial assistance so they're not forced to cut needed social services. There was some partisan sorting on this question. Seventy-three percent of Democrats think that the federal government should provide aid to states. Republicans, meanwhile, were divided on the question, with a narrow plurality (48 percent) thinking that states should largely be on their own and 42 percent thinking the federal government should provide assistance.

We then asked voters if they would support or oppose a proposal where the federal government would automatically provide states with increased assistance if their unemployment rate rose above 5 percent. This proposal constitutes a kind of "automatic stabilizer"—a type of policy where assistance is issued automatically when specific objective economic indicators are met. This has the advantage of getting aid out faster and not making it conditional on partisan negotiations.

Overall, this proposal was popular among all voters, enjoying a 25-percentage-point margin of support. Democrats support it by a 52-point margin, while Republicans support it by a 7-point margin.

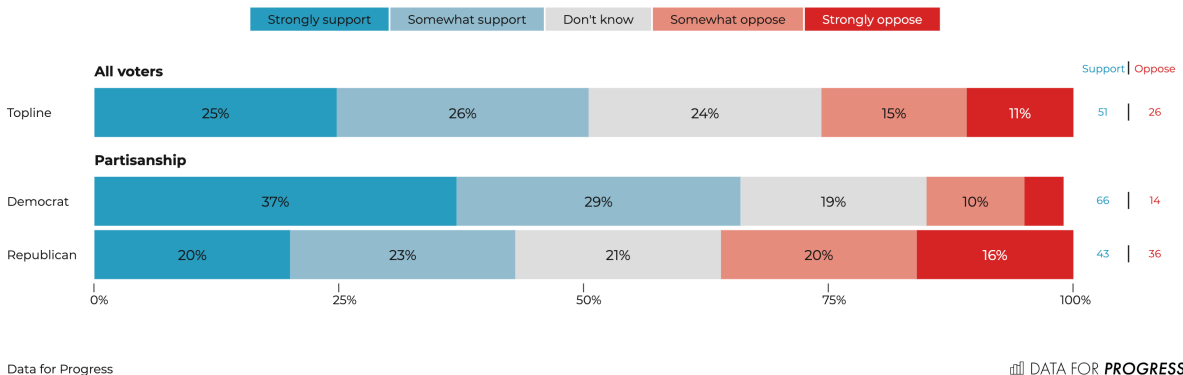
### Most Voters Want The Federal Government To Provide Aid To States

When thinking about the relationship between the federal government and state governments, what comes closer to your view?



### Voters Support Providing States Aid Automatically When Their Unemployment Rate Is Above Five Percent

Would you support or oppose state and local governments automatically getting increased federal aid when their unemployment rate goes above 5 percent?



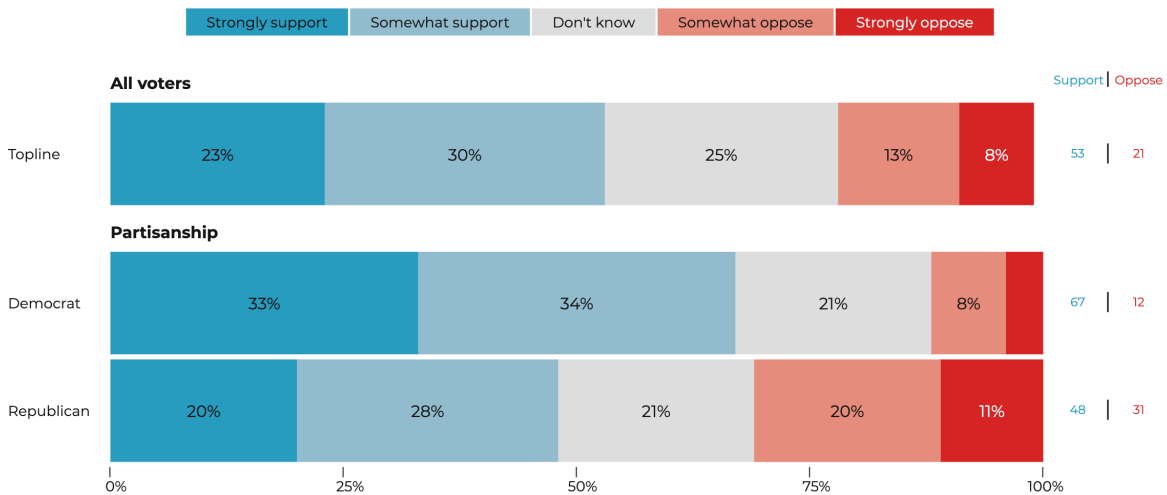
Next, we asked voters if they would support Congress creating an external entity that would allow states to borrow money. This is a proposal that Skanda Amarnath of Employ America made the case for. Amarnath noted that while direct federal aid is the preferred solution to prevent states from needing to pursue austerity, borrowing “can nevertheless serve as a gap-filling measure that supplements the primary solution of direct, automatic federal aid.” He notes that such a

policy course would “simultaneously overcome challenges posed by municipal balanced budget requirements, while increasing the likelihood that the Fed would purchase such debt as part of its authority to conduct open market operations.”

Overall, voters support this proposal by a 32-point margin. Both Democrats and Republicans back the idea, the former by a 55-point margin and the latter by a 17-point margin.

## Voters Support Creating An Entity That Allow States To Borrow Money

States are facing budget deficits due to expenses related to the coronavirus and decreased revenues from the economic fallout of the pandemic. Some are proposing that Congress create an external entity backed by the United States Treasury that can borrow money on behalf of state and local governments. State and local governments could then use these funds to preserve employment and services during the current economic downturn. Do you support or oppose this proposal?



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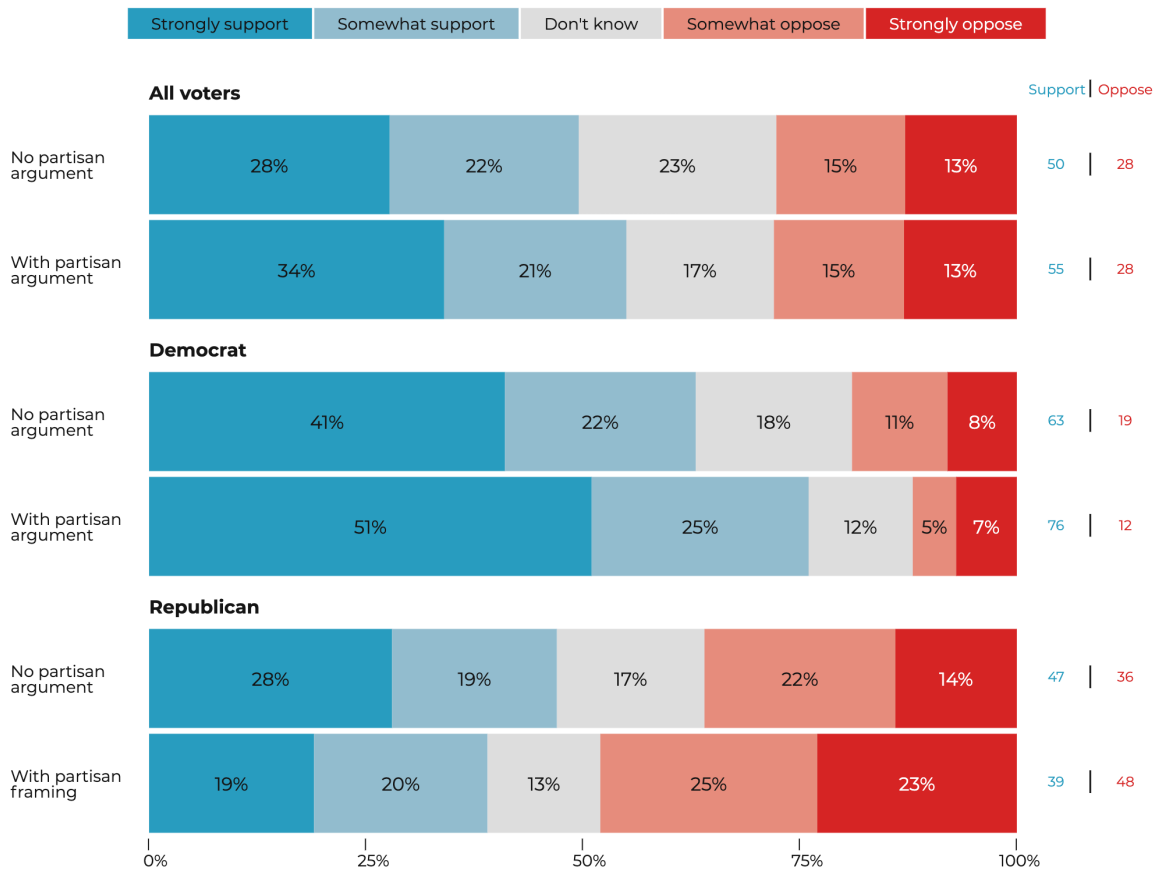
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Next, we asked voters whether they would support or oppose \$1 trillion in federal aid to states. We asked this question two ways: First, it was posed with arguments for and against, then it was posed with the same arguments while adding in a partisan frame. In both cases, we find that aid

to state is popular with voters. Surprisingly, aid to states is slightly *more* popular when tested in a partisan environment. Without a partisan frame, voters support aid to states by a 22-point margin. With a partisan frame, though, voters support it by a 27-point margin.

## Aid To State Is Popular With And Without Partisan Frames

Would you support or oppose federal aid to state and local governments?



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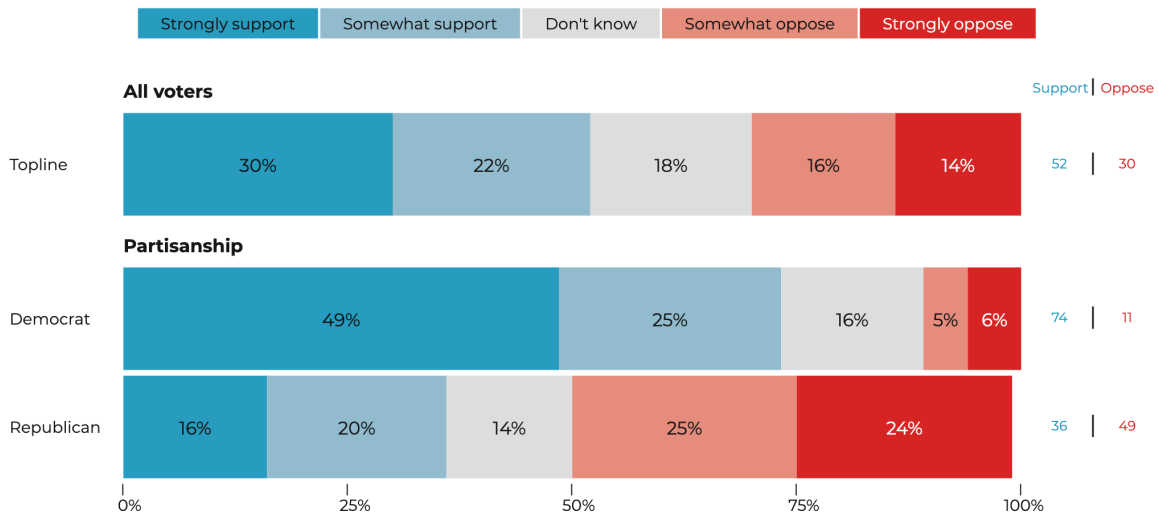
We then reasked voters whether they would support or oppose aid to states, this time providing voters an argument that made reference to the 2008 financial crisis. Again, voters support the idea: Among all voters, a 22-point margin backs a \$1 trillion dollar package to states. Democrats and

Republicans are split on the question, with the former supporting the idea by a 63-point margin and the latter opposing it by a 13-point margin.

States are a key part of the American economy and voters want them to receive financial support.

## Referencing To The 2008 Recession Is A Strong Argument For Aid To State

Democrats in Congress are proposing providing up to \$1 trillion in federal aid to state and local governments to cover their budget shortfalls due to the coronavirus recession. Democrats say that if state and local governments are forced to cut their budgets, it will cost millions of well paying jobs and make the recession worse. They claim that many state and local budgets never fully recovered from the 2008 recession, and that we face economic disaster if we do not act quickly. Republicans oppose the proposal. They say that irresponsible government spending has exploded the national debt which will be a financial burden for all future generations. They claim that bloated state and local governments have already cost taxpayers too much money, and that they should live within their means just like a family or business. Do you support or oppose this proposal?



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# AUTHORSHIP

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*Edited by Andrew Mangan, Senior Editor, Data for Progress*

# METHODOLOGY

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From July 15 through July 16, 2020, Data for Progress conducted a survey of 1,235 likely voters nationally using web-panel respondents. The sample was weighted to be representative of likely voters by age, gender, education, race, and voting history. The survey was conducted in English. The margin of error is +/- 2.8 percentage points.

Due to rounding some values may not sum to 100 percentage points.

## QUESTION WORDING

*Spending by state and local governments generally is:*

- ▶ A critical part of a strong economy, since it creates well paying jobs and provides vital services
- ▶ A drag on the economy, since it takes money away from taxpayers when the private sector would make better use of the same resources
- ▶ Don't know

*When thinking about the relationship between the federal government and state governments, what comes closer to your view?*

- ▶ The federal government should provide additional financial aid to state governments during economic

downturns so these state governments can maintain needed services.

- ▶ When it comes to state budgets, states should largely be on their own which means they may have to cut back on spending during economic downturns.

- ▶ Don't know

*Would you support or oppose state and local governments automatically getting increased federal aid when their unemployment rate goes above 5 percent?*

- ▶ Strongly support
- ▶ Somewhat support
- ▶ Somewhat oppose
- ▶ Strongly oppose
- ▶ Don't know

*States are facing budget deficits due to expenses related to the coronavirus and decreased revenues from the economic fallout of the pandemic. Some are proposing that Congress create an external entity backed by the United States Treasury that can borrow money on behalf of state and local governments. State and local governments could then use these funds to preserve employment and services during the current economic downturn. Do you support or oppose this proposal?*

- ▶ Strongly support
- ▶ Somewhat support
- ▶ Somewhat oppose
- ▶ Strongly oppose
- ▶ Don't know

*States are facing budget deficits due to expenses related to the coronavirus and decreased revenues from the economic fallout of the pandemic. Some in Congress are considering providing \$1 trillion in federal aid to states and local governments to protect them from bankruptcy and avoid making deep cuts to government programs and services. Supporters of this say that the federal government has a responsibility to support state and local governments during this crisis. Opponents of this say that states are responsible*

*for balancing their budgets and should not rely on the federal government for aid. Would you support or oppose federal aid to state and local governments?*

- ▶ Strongly support
- ▶ Somewhat support
- ▶ Somewhat oppose
- ▶ Strongly oppose
- ▶ Don't know

*States are facing budget deficits due to expenses related to the coronavirus and decreased revenues from the economic fallout of the pandemic. Democrats in Congress are considering providing \$1 trillion in federal aid to states and local governments to protect them from bankruptcy and avoid making deep cuts to government programs and services. Democrats support this proposal. Democrats say that the federal government has a responsibility to support state and local governments during this crisis. Republicans oppose this proposal. Republicans say that state and local governments are responsible for balancing their budgets and should not rely on the federal government for aid. Would you support or oppose federal aid to state and local governments?*

- ▶ Strongly support
- ▶ Somewhat support
- ▶ Somewhat oppose
- ▶ Strongly oppose
- ▶ Don't know

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- ▶ Strongly support
- ▶ Somewhat support
- ▶ Somewhat oppose
- ▶ Strongly oppose
- ▶ Don't know