

Economic Prospect
Governors Want \$500,000,000,000 in Federal Relief for States
John Addison Teevan (38:5) April 17, 2020

Many Governors want Uncle Sam to pony up a half trillion dollars to fill their budget deficits. So, let's see, Uncle Sam will tax the people in small states like Indiana to send that money to NY and NJ and CA. We all want to be good team players, but those large states do not need the half trillion for the COVID-19 pandemic; that is already funded. The half trillion is to fill holes in their budgets. I give them credit for trying, but the better response would be to produce sober budgets for now.

Paul Krugman, Nobel Keynesian economist and darling of the far left, thinks that the CARES act was miserably deficient in failure to bail out these states. Big states lose big revenues. The lost tax revenue from lost pro athletic seasons and lost conventions have also hurt. Arizona lost \$25 million in taxes when spring season baseball was cancelled. Chicago loses a quarter million in tax dollars for each Bulls game cancelled.

Aren't these states also facing horrendous costs due to COVID-19? Yes, but they are being reimbursed. This relief is for the regular state budgets. Aren't these often the same states that are too virtuous to accept federal immigration laws and insist on sanctuary cities? The reason for the huge deficits in these mostly coastal states is ironic. They depend on two hated groups for their tax revenue, and for this I rely on Steven Malanga (City Journal March 22, 2020).

The awful capitalists in California and New York turn out to be essential to the state governments in CA and NY. Both states get about 25% of their entire budget from capital gains taxes. In California the S&P 500 needs to be at 3120 to meet budget; today it's at 2700. Each state has an immense budget: \$172 billion for NY and \$222 billion in CA for 2020. Cap gains taxes in those two states alone fund about \$100 billion. For comparison Indiana's entire GDP (not budget) is \$300 billion. So those states are hurting as are CT MA and IL.

The other hated group is oil: The just-ending price war between Saudi Arabia and Russia has made gasoline as cheap as the \$.25 was in the 1960s. Texas loses \$85 million in tax revenue for each \$1 drop in a barrel of oil: so far \$25 a barrel. Oklahoma needs oil at \$55 per barrel to meet budget. Alaska? Don't ask.

All these states, relying on the exceptional income from oil and capital gains income, and already having immense deficits (though NY says it has a \$3 billion surplus) want Uncle Sam (that's us) to bail them out.

Let's make a deal: You can have the half trillion to share among yourselves...provided. 1) Gain control of your state pensions. Do not reduce any benefit for those who are 55 and older, but for all others. Make it work for three years. 2) Create a budget that adjusts to tax income and keep it nearly balanced for three years. 3) Decide if you want to be part of the federal system or not. 4) (The throwaway for negotiations) Arrest, try, and convict and sentence five corrupt politicians in each state to a minimum of 10 years in prison. Not show trials; find the truly corrupt. Indiana has a federal prison in Terre Haute that has plenty of room in cells near some of the six former Illinois governors who have been incarcerated there; Blago is out.

Isn't the stock market showing us that we're going to be fine? I would rather focus on the level of unemployment; people in pain. The stock market is way down, but it has two things going for it. First, these are big companies, especially the Dow Jones stocks. They have deep pockets and their bankers know them by name. Second, it's the little guys...the entrepreneurs and restaurants that are hurting more than the bigs.

Governor Cuomo of New York has determined that he will start to reopen the state economy on May 15. For most with college degrees who can work from home that is only an inconvenience. For the little people, including 40% in NYC on Medicaid, it is a different story. The governor appears much less concerned about the 8.4 million New Yorkers who live outside of NYC. Similarly, in Michigan, Governor Whitmer has determined that the needs of Detroit, where COVID-19 is also sadly severe, should determine how the restaurants and barbers in Ironwood, MI, 600 miles away, should behave, including not painting their houses. This is an invitation to learning to disrespect and ignore government leaders; an immense unforced error.