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How the Federal Government and States Coordinate in Times of Recession

Past experiences can inform future recovery efforts

Overview

As the U.S. economy continues the longest period of expansion in its history, economists are weighing the likelihood of a downturn.[1] The past two recessions, in 2001 and 2007, significantly affected state revenue, prompting the federal government to help states balance their budgets by providing stimulus funding.[2] However, appropriating these resources was only a first step; deploying the funds required effective coordination between federal and state agencies, especially during the 2007 recession. Understanding what worked in that collaborative effort can help both levels of government prepare for the next economic contraction.

Federal stimulus has been vital to states during downturns

The recessions of 2001 and 2007 substantially reduced state tax revenues, prompting the federal government to provide financial assistance to shore up stressed state budgets.[3]

The federal government's fiscal response to the 2001 recession came in the form of the Jobs and Growth Tax Relief Reconciliation Act of 2003, which primarily provided tax relief but also expanded the federal share for Medicaid by $10 billion and distributed a one-time appropriation of $10 billion to help states balance their budgets.[4]

The Great Recession was much deeper and led to a significantly larger fiscal response from the federal government: the American Recovery and Reinvestment Act of 2009 (ARRA). Although the act, like its 2003 predecessor, included substantial tax relief, it placed a much larger emphasis on spending for programs, initially estimated to reach almost $500 billion over 10 years.[5] The federal government ultimately allocated $275 billion of those funds to states and localities via three main channels:[6]

- An estimated $99 billion increase in the federal share of Medicaid.[7] Because state contributions to Medicaid consume a substantial portion of their spending, increasing federal support for the program was a straightforward way to relieve budget pressures on states.[8]
- A new $54 billion State Fiscal Stabilization Fund provided flexible grants for education, another major area of state spending, which also helped states stabilize their budgets.[9]
- Specific appropriations for a range of programs—including renewable energy, broadband deployment, and grants and loans for transportation infrastructure—many of which were administered by states.

Coordination was key

Rapid deployment of federal assistance required cooperation across levels of government. The state stabilization funds provided in 2003 were largely unrestricted, and the degree of coordination required was modest. However, the size of ARRA, in conjunction with the need for speed, put pressure on state and federal agencies to work together to navigate federal requirements.

The Obama administration created the Recovery Implementation Office (RIO) within the Office of Management and Budget (OMB) to facilitate communication among federal agencies, states, and other funding recipients.[10] RIO provided guidance and technical assistance, and helped states meet spending targets.[11] Meanwhile, the White House Office of Intergovernmental Affairs managed frequent, direct communication between the vice president and state officials. On the state side, the National Governors Association worked with OMB to develop a network of state representatives to serve as recovery coordinators.[12]

Congress and the administration prioritized transparency at every stage, which also required federal-state coordination.[13] ARRA established the Recovery and Accountability Transparency Board to track spending and prevent waste.[14] To achieve those goals, the board established a public website and a system of quarterly reporting of information to the site. The resulting flow of data fed back into the goal of rapid deployment by enabling OMB to monitor states' implementation progress.

Ultimately, most ARRA funding was deployed within the administration's timelines.[15] As they plan for future downturns, policymakers from both levels of government can learn from past experience and might even consider developing a playbook for federal-state coordination to guide their efforts when the next recession occurs.

Endnotes

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11 G.E. DeSeve, "Managing Recovery: An Insider's View" (IBM Center for the Business of Government, 2011), http://businessofgovernment.org/sites/default/files/Managing Recovery.pdf.

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