

Three solutions to revitalize state economies in the aftermath of the coronavirus pandemic

We are living through the most swift and severe economic contraction in American history. What began as a public health crisis quickly expanded into an economic crisis, as consumers retreated and public officials shuttered businesses. Nearly [17 million Americans](#) had filed new initial unemployment claims in just the three weeks ending April 4, 2020—that's one in ten of those Americans who are engaged in the work force. The unemployment rate threatens to quickly [reach 20 percent](#), a degree of joblessness America has seen only once in the last century. By comparison, unemployment peaked at 10 percent during the Great Recession.

When this crisis ends, tens of millions of Americans will flood back into the workforce. America needs a plan to jumpstart the economy, and states must drive local economic growth. As policymakers look for ways to reopen businesses and resume normal commerce, they can accelerate the recovery by embracing policy innovations that establish the certainty that businesses and workers need to start up quickly, innovate freely, and operate efficiently.

Creating economic certainty in uncertain times relies upon three pillars:

1. Keeping state budgets funded, balanced, and able to provide core services by reprioritizing government spending to focus on crisis response.
2. Giving American families and businesses financial peace of mind through tax relief.
3. Boosting job creation and innovation by cutting red tape.

For decades, state think tanks have worked to create policies that foster an economic environment where people can prosper. The following reforms represent decades of practical state solutions that provide a roadmap that all states can use to support existing businesses, as well as jumpstart business growth and job creation when economies re-open.

Solution 1: Keep state budgets funded, balanced, and able to provide core services by reprioritizing government spending to focus on crisis response.

States will experience [increased deficits](#) as healthcare and social welfare outlays surge and revenues decline. Tax hikes will only threaten an economic recovery when they are imposed on American families and businesses struggling to make ends meet. Instead, policymakers can use the following solutions to produce balanced budgets during this time of financial stress in order to seed the ground for future entrepreneurship, job creation, and economic growth.

Specific budget options for states:

- Prioritize crisis response funding.
- Freeze public sector pay and hiring.
- Cut back non-essential government staff and services.
- Separate out new appropriations for one-time crisis expenditures instead of mixing pandemic response appropriations into general appropriations.
- Tap into state rainy day funds to tide over the recession.
- Reform pension debts and allow state employees to take their retirement with them through defined contribution systems.

Think tank solutions:

- [Empire Center](#) calls for a freeze to public sector pay in New York, citing the unfairness and fiscal imprudence of giving out government pay increases while unemployment statewide skyrockets. [Governor Cuomo agreed](#) and took emergency action to cancel scheduled pay increases.
- [Idaho Freedom Foundation](#) has called for a hiring freeze to control costs and cutback on non-essential staff and services.
- [Mackinac Center](#) advises tapping state “rainy day” reserves, cutting non-essential spending, and charging state agencies to identify savings from their budgets. In order to ensure that temporary expenditures don’t get woven into baseline appropriation levels, Mackinac called for coronavirus response supplemental appropriations to be made in separate bills that are not intermingled with the general baseline budget appropriations.
- The [Illinois Policy Institute](#) presented a plan to reform Illinois’ severely stressed pension systems. Illinois and Chicago face seemingly insurmountable financial challenges that cannot be overcome without addressing poorly managed pension funds.

Solution 2: Give American families and businesses financial peace of mind through tax relief.

Burdensome taxes challenge families and businesses in good times. They put jobs and business survival at risk in bad times. State think tanks are driving solutions to ensure that businesses and families experience tax relief, and that the tax code get fixed to maximize short-run business liquidity while making state codes more competitive.

Specific tax reform options for states:

- Extend tax filing and payment deadlines.
- Allow businesses to deduct operating losses more quickly.
- Provide permanent and full expensing for new investments in machinery and equipment.

- Allow depreciation deductions to be taken more quickly for new investments in structures.
- Reform unemployment insurance plans before they go insolvent.
- Enact and enforce tax caps.
- Fight off new forms of taxation.

Think tank solutions:

- The [Tax Foundation](#) offers tax reform options to buttress businesses for the recession. They recommend [extending tax filing and payment deadlines](#) so that businesses can retain liquidity through the early months of the crisis. They call for improved treatment of net operating losses (NOLs) to ensure business liquidity, and providing permanent full expensing for new investments in machinery and equipment. They [offered reforms ideas](#) for unemployment insurance tax, whose funds dangerously close to insolvency.
- The [Texas Public Policy Foundation](#) called for Texas' property tax cap to be strictly enforced, thus protecting families from steep increases in property taxes.
- Texans aren't the only ones keen to protect their homes from pernicious property taxes. The [Empire Center](#) describes New York's property tax cap as more crucial than ever.
- [Washington Policy Center](#) advises against imposing an income tax in Washington, recognizing the importance of maintaining a competitive tax code while the state is under economic duress.
- Similarly, [Illinois Policy Institute](#) is fighting to have a progressive tax initiative removed from the fall ballot.

Solution 3: Boost job creation and innovation by cutting red tape.

Entrepreneurs suffocate under red tape. Millions of Americans will soon need to find new jobs, and state leaders can grease the wheels of innovation and job-creation by removing red tape that leads to uncertainty and increased costs of doing business.

Specific regulatory reform options for states:

- Create 24-hour cities to facilitate [rapid new start ups](#).
- Consider options for [zoning reform](#), such as repealing rules that restrict home-based businesses.
- Loosen occupational licensing laws.
- Extend regulatory deadlines for licenses and permits for business and workers.
- Cut fees paid by businesses and workers.
- Slow already-enacted minimum wage increases.
- Exercise caution in using anti-price gouging laws that restrict prices increases to ensure consumers aren't cut off from necessary products and services.
- Relax weight and size regulations for essential deliveries.
- Allow more innovation in delivery services, such as drone deliveries.

Think tank solutions:

- The [Reason Foundation](#) shares the story of Phoenix city councilman Sal DiCiccio, who created a system for 24-hour turnaround for project approvals. By implementing a self-certification process and shifting certain inspection and permitting functions to the private sector, red tape, and wait times are dramatically reduced.
- The [John Locke Foundation](#) has called for a suspension of occupational licensing restrictions, universal licensing recognition for out-of-state licenses, and upholding a worker's right to earn a living through more consumer choice and use of lighter forms of regulation like certification. They also called for a [reduction](#) of business filing fees and minimum taxes so that businesses can retain precious liquidity, and caution in using anti-gouging laws.
- The [Platte Institute](#) called for extending regulatory deadlines, pointing to the leadership of Maryland Governor Larry Hogan. They also called for less red tape in licensing.
- The [Idaho Freedom Foundation](#) and [Mississippi Center for Public Policy](#) point to reforms made to allow alcohol to be ordered to-go or even by delivery.
- The Beacon Center wants to see looser weight regulations on freight trucks and truck drivers transporting medical or food supplies. Similarly, regulations can [allow drones](#) to deliver food and drugs during the crisis.

Appropriate policy responses will vary by state, and policy innovation is undoubtedly needed going forward to create more solutions. State leaders can best support business, entrepreneurs, and workers through actions that minimize the pain of this economic contraction and maximize opportunity when the economy begins to recover. Policy leaders within SPN's 50-state Network will continue to light the way for state governments by offering recommendations focused on restructuring budgets, reforming taxes, and reducing the friction involved in starting and operating a business.

Contact SPN

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