Challenging Austerity under the COVID-19 State

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Challenging Austerity under the COVID-19 State

Abstract

The COVID-19 pandemic represents a short term shift in US social policy. Under the CARES Act and the American Rescue Plan, the federal government prioritized households by raising the floor for child support and unemployment benefits, and restoring fiscal federalism by providing increased funds to state and local governments. Our nationwide survey finds local governments with more citizen participation and Black Lives Matter protests prioritize social equity investments, while those with more Trump voters prioritize physical infrastructure. COVID-19 led to new policy approaches that expand government investment. These have the potential to help reshape citizen expectations and repair federal-state-local relations.

Introduction

The COVID-19 pandemic created a moment to shift the frame for US social and fiscal policy. While neoliberalism has dominated policy approaches for the past 40 years, recent federal policy changes in child benefits, unemployment benefits and aid to state and local government offer the potential to expand citizen expectations of the state and repair federal-state-local fiscal relations. Scholars have called attention to the devastating impacts of austerity since the Great Recession (Peck, 2014; Donald, et.al., 2018; Gray and Barford, 2018), but understanding the role of the state in the COVID-19 era requires a shift in framing (Martin et al., 2022). In this paper we ask: What are the implications for local government action given the changes that have occurred in US policy in response to COVID-19?

This paper uses US policy responses to the COVID-19 crisis to explore changes in state action. We draw from political economy and institutionalist approaches (Chiapello and Knoll, 2020; Martin et al., 2022; Peck, 2014; Streek and Mertens, 2013; Warner and Clifton, 2014; Harvey, 2006), to explore shifts in government action at the federal, state and local levels in the US.

At the federal level we look at the COVID response during Trump's final year, 2020 (CARES Act), and programs passed in Biden's first year in office in 2021 – the American Rescue Plan (ARPA) and the Infrastructure Investment and Jobs Act (IIJA). We find shifts with regards to who benefits from federal investments, as federal policy raised the floor on social welfare benefits across states and expanded support to state and local government for infrastructure and social equity investments. We present the first national data on the investment priorities of local governments under ARPA, which allocated $130 billion to local governments. Through focus groups and a survey of local governments, we assess how local governments are planning to spend these new funds. These funds give localities more flexibility to respond to a range of issues from revenue shortfalls, to social equity, to investment in infrastructure. While some local governments may use the funds just for revenue replacement, others may choose more equity-promoting investment. Research during the Great Recession has shown wider spatial diversity in state and local government action than austerity theory would expect (Lobao et al., 2021; Xu and Warner, 2015; Warner and Xu, 2021), but it has also pointed to the challenges of a 'broken fiscal federalism' where higher levels of government shift expenditure burdens to lower levels (Xu and Warner, 2022). The extra funds provided through ARPA create space for more flexible local action.

We begin by reviewing pre-COVID policy at the federal, state and local levels in the US, and then discuss policy changes occurring as a result of the COVID-19 crisis. We then present models looking at investment priorities at the local level and find that equity investments are more common in local governments which had more citizen engagement and created ARPA specific plans, while physical infrastructure investments are based on preexisting capital plans and are not responsive to citizen engagement. This suggests a slight shift toward more progressive action in local governments with both the planning capacity and citizen pressure to promote equity.

Literature Review

Federalism and the Social Safety Net

In the US, the federal government delegates significant power to the states, especially social safety-net functions. Federal efforts to expand the social safety-net have historically been limited by racialized politics (Katz, 2013). This is why agricultural and domestic workers were originally left out of social security coverage after the New Deal. The Great Depression represented a critical juncture, resulting in New Deal programs such as Social Security, which expanded citizen expectations of the state (Blanchard, Hinnant and Wong, 1998) . But to craft compromise in Congress, discretion over eligibility requirements and support levels was given to the states (Katz, 2002). Additionally, devolution in the US has been a process of delegating authority, not just financial responsibility, so the US federal structure is composed of fifty different state systems with differing social citizenship rights depending on where you live (Bruch and White, 2018). For example, Temporary Assistance to Needy Families (TANF), the social welfare program for families, varies considerably in level of payment and eligibility across states, with lower rates in states with more people of color and more poverty (Hahn et al., 2017; Urban Institute, 2018). Historians call this varied state response the "price of citizenship" (Katz, 2002).

Recent, federal efforts to expand access to social supports, such as health care through the Affordable Care Act (ACA) in 2010, also left discretion to the states. Only 36 states decided to expand Medicaid eligibility to lower income workers under the ACA (Kaiser Family Foundation, 2020). Local administrative procedures create further variations in access to Medicaid, and this leads to a policy cycle where residents, disenfranchised by procedures in Medicaid approval, reduce their political engagement (Michener, 2018). Paternalistic state treatment undermines political engagement of poor citizens and the potential for progressive change (Pratt and Hahn, 2021; Soss et al., 2011). At the local level, social services are lower in communities with higher minority poverty (Kelly and Lobao, 2021).

Policy changes in response to COVID-19 represent a slight departure from these norms of U.S. federalism and an effort by the federal government and some states to raise the floor on social policy. During the COVID-19 pandemic the federal government intervened with more expansive social policy-making. The CARES Act in 2020 raised unemployment benefits by $600 per week in the first round, and $300 a week in the next round. The American Rescue Plan Act (ARPA) in 2021 included family payments in the form of an expanded Child Tax Credit which increased benefits for low and middle income families. During COVID-19 state and local governments with more social protections were more likely to enact timely public health policy (Warner and Zhang, 2021). Public health was used to justify expanded interventions in the social determinants of health. For example thirty-four states placed moratoria on water shutoff to low income residents (Warner et al., 2020). This was new; as prior to the pandemic no state had such protections, as the US does not recognize a human right to water. At the local level, many cities enacted moratoriums on water shutoff and on evictions (Jowers et al., 2021). These state and local policy changes were justified because of public health concerns under COVID-19 (Zhang et al., 2022), providing a new rationale for social welfare protections.

State Rescaling and Local Response

Critical political economy theory has long argued that the path of neoliberal development results in the state prioritizing efforts that promote accumulation, leading to a decline in state functions and resources for social protection (O'Connor, 1979; Harvey, 2005; Peck and Tickell, 2002; Streek and Mertens, 2013). State rescaling, or the process by which national governments have off-loaded responsibilities for policy-making to state and local governments (Brenner, 2004; Jessop, 2002), can reinforce neoliberal governance at the state and local levels. This can increase the emphasis on policies promoting economic growth at the expense of social protection (Peck and Tickell, 2002; Prasad, 2006; Lobao et al., 2018).

The Great Recession of 2007-08, which triggered budgetary crises for state and local governments, witnessed the rise of austerity policies (Davidson and Ward, 2014; Lobao and Adua, 2011; Martin et al., 2022; Peck, 2014). The austerity politics framework highlights how economic crises are used to advocate for cutting public employment, services and social safety-net protections (Kim and Warner, 2018; Lafer, 2017; Lobao and Adua, 2011; Peck, 2014). Austerity measures adopted by local governments to address budget shortfalls and fiscal stress include cutting staff and services, selling public assets, deferring infrastructure investment and privatization (Davidson and Ward, 2014; Lobao and Adua, 2011; Peck, 2014). However, the empirical evidence of broad adoption of austerity policies in the US is limited.

Relative autonomy – or the qualities and contexts of government – are central to understanding the adoption of varying policies across place (Brenner, 2004; Jessop, 2008; Lobao and Adua, 2011). Researchers have emphasized the agency of local governments that maintain longstanding public services, while adopting pragmatic policy solutions to address resource constraints (Aldag et al., 2019; Lobao et al., 2014; Warner et al., 2021a; Warner and Clifton, 2014). Administrative and fiscal capacity are key indicators of policy outcomes, as localities with more professionalized staff are better equipped to navigate fiscal stress (Lobao and Adua 2011). Local government officials may adopt "pragmatic municipalism" approaches to service delivery which enables them to balance needs and available resources (Davidson, 2020; Kim and Warner, 2016; 2021; Warner et al., 2021a). These pragmatic approaches often involve intermunicipal cooperation and new forms of revenue raising to meet local service needs (Warner et al. 2021b), as well as coalitions with local business and nonprofit organizations in an effort to push back against the narrative of austerity and inefficient local government (Aldag et al., 2019; Kim, 2019). Such coalitions also have been used to scale up progressive change to the state and national level (Benner and Pastor, 2015; Doussard, 2015).

Additionally, push-back among citizens in the form of public opinion and social movements is another means through which public policy changes may occur (Burstein and Linton, 2002). Polanyian-derived approaches help explain how society can push-back in a double movement to counter further erosion of social welfare. This push-back has been found in local government action in the US after the Great Recession (Warner and Clifton, 2014). This process was documented during the Great Recession at both the national and local scale (Fraser, 2011). Social movements, such as Occupy Wall Street and Black Lives Matter (BLM), emerged in direct opposition to neoliberal policy-making (Hammond, 2012; Hooker, 2016). These counter movements help challenge current state practices and reinsert public values; and this in turn, can expand citizen expectations of the local state and resulting government actions. At the same time, this process has been used by pro-Trump movements that challenge the legitimacy of the state. Similar anti-government citizen movements were found during the Great Recession with the rise of the Tea Party (Skocpol and Williamson, 2012). So citizen engagement can cut both ways.

COVID-19 has created a momentary shift in policy, that enabled exploration of alternative strategies for addressing ongoing crises at both the national level (top-down) and local level (bottom-up) (Martin et al., 2022). The public health and economic stimulus requirements created by the pandemic, forced both Republican and Democrat administrations to invest in more Keynesian-style policies including direct funds to state and local governments. While this is not a return to the Keynesian perspectives of the post-World War II era, which promised universal investments to promote broad economic prosperity (Edwards and Martin, 1981), it is an opening to potentially broaden US social welfare conventions from market oriented toward more social protections (Chiapello and Knoll, 2021; Warner and Zhang, 2021). The lessening of local government fiscal stress, due to ARPA, and the broadening frame of public health as a justification for wider social protections have created led to policy shifts which we explore in the empirical analysis that follows.

Analysis: Shifting Federal Emphasis to Households and State and Local Governments

The crisis created by the COVID-19 pandemic was unprecedented in its scale, with over 900,000 deaths in the US, disproportionately among racial/ethnic minorities (NY Times, 2022), and financial shocks to the broader economy (Triggs and Kharas, 2020). In the spring of 2020, Congress responded by passing the CARES Act with funding for public health expenditures, support to business (the Paycheck Protection Program), the airlines, and an expansion of unemployment benefits to $600/wk. The CARES Act represented a Keynesian-shift with regards to national policy-making to respond to the public health and economic crises caused by COVID-19. However, the focus was primarily on public health and support for business and industry and designed to be short-lived. A year later, after the Democrats took over Congress and President Biden came into office, Congress passed the American Rescue Plan Act (ARPA). ARPA shifted emphasis towards households and state and local government support. In Figure 1, we contrast the CARES Act, passed at the beginning of the pandemic, with ARPA passed a year later in March 2021. CARES Act funds were largely allocated to support businesses, while support for households was tied to individuals' status as a worker through unemployment benefits or payroll protection programs. ARPA represented a shift in policy to prioritize citizenship over worker-status, public-sector over private-sector investments, and raised the floor of support for families with children. The biggest shift was a dramatic increase in funding to state and local governments ($350 Billion), accounting for 40% of total ARPA funds compared to 12% under CARES, and less funding for private business – down to 6% of total ARPA funds compared to 43% under CARES. The largest spending categories under ARPA were benefits to households including: an expanded child tax credit, one-time direct payments to households ($1400 per person), extended unemployment benefits, and temporary expansion of health care subsidies (ACA subsidies and 100% funded COBRA coverage for workers).

Figure 1 about here

Household and Unemployment Benefits

Many families lost work-related income during the COVID-19 pandemic. In April 2020, more than 22.5 million people were unemployed, which counted for 14.5% of the total labor force (U.S. Bureau of Labor Statistics, 2020). To address the economic dislocation, the federal government expanded unemployment benefits to 53 weeks (U.S. Department of Labor, 2021). Eligibility, duration and level of unemployment insurance vary across the fifty states, but during a crisis, the federal government will often extend unemployment insurance duration. But the CARES Act went further. It extended eligibility for unemployment insurance to individuals who are traditionally excluded, such as self-employed workers (including gig workers) and contractors (U.S. Department of Labor, 2021). The CARES Act also increased unemployment insurance payments to at least $600/wk – the equivalent of $15/hr for a 40-hour week. Many states complained, as this would make unemployment more lucrative than work for many low wage essential workers. The federal minimum wage stands at $7.25/hr, a level unchanged since the 1970s. Unions and progressive coalitions have been pushing for increasing the minimum wage (Doussard, 2015), but only 30 states have raised their minimum wage above the federal minimum, and seven states have no minimum or a minimum below the federal level (EPI, 2021).

We compared the expanded unemployment insurance benefit with the pre-COVID unemployment payment for each state (level shown by state names in Figure 2), and found that the new unemployment benefit was higher than the original state unemployment insurance level in 31 states. The additional $600/wk provided by the CARES Act is shown in the vertical dotted line in Figure 2. The additional $600/wk benefit in the unemployment insurance program dramatically raised the floor across the U.S. Before the program, only seven states had a maximum weekly benefit of more than $600 (Figure 2).

Figure 2 about here

A further change occurred under ARPA. Support was expanded beyond workers to children and families through the expanded Child Tax Credit which provided $300/month for each child under age 6, and $250/month for each child from 6-17 (U.S. Department of the Treasury, 2021). The Child Tax Credit lifted 50% of low income children out of poverty (Pullman and Reeves, 2021). Figure 2 also compares the amount a family with two children (one child under 6 and one aged 6 to 17) would receive under the expanded Child Tax Credit ($550 a month, shown as a dotted horizontal line), to the amount a family with two children would receive under Temporary Assistance for Needy Families (TANF) for each state. The advanced Child Tax Credit is higher than the maximum TANF benefit in 33 states, effectively doubling the monthly cash assistance that low income families received. For example, Alabama has the lowest level of TANF and unemployment benefits, but the combination of CARES' Unemployment Insurance and the Child Tax Credit effectively tripled the original benefits. The maximum weekly unemployment benefits rose from $265 to $865 under the CARES Act. For families that receive benefits under TANF, the advanced Child Tax Credit increased total monthly benefits from $215 to $765.

While both of these federal programs were temporary, they signaled a federal strategy to set a higher floor on unemployment insurance and family assistance across the states. The impact was greatest for low income families. Federal action raising the floor also motivated state action, especially in the South where benefits have historically been lower. Six southern states offered less than 26 weeks of unemployment insurance before the pandemic, but after the federal government extended the maximum weeks of unemployment benefits, three of these states extended their benefits. Georgia increased its maximum to 26 weeks in July 2020; Florida and North Carolina increased their maximum from 12 weeks to 19 and 13 weeks respectively in January 2021.

This was a contested process, and some states pushed back on the federal expansion. The CARES Act only offered the additional $600 unemployment insurance benefit for 18 weeks. For the remaining period of the CARES Act, an additional $300 was provided through executive order (Federal Emergency Management Agency, 2020). However, states needed to apply for the grant independently. Unemployed workers in most states received the extra $300, but South Dakota refused the program. Also, 26 states ended or declared an end to the extended unemployment insurance benefits under ARPA before the funding ended (The Century Foundation, 2021), including the six states with the lowest maximum benefit (lower than $300/wk) (Figure 2). And Florida and North Carolina decreased the maximum weeks for unemployment back to 12 weeks in 2022 (Center on Budget and Policy Priorities, 2022).

State and Local Funding

The American Rescue Plan Act also represents a policy shift in federal-local relations. The $350 Billion in “Fiscal Recovery Funds” provided by ARPA to state and local government represent the greatest direct federal transfer of funds to local governments since the Great Society programs in the 1960s. While states received $220 billion, local governments received $130 billion. The funds provide local governments broad flexibility across fourteen eligible sub-spending categories. Funds can be used to support: (1) public health expenditures, such as COVID-19 mitigation and containment and/or behavioral and mental health services; (2) negative economic impacts, such as assistance to families and households, small businesses, nonprofits, tourism, travel and hospitality industries, as well as resources to address impacts on housing, neighborhood and educational disparities; (3) infrastructure, such as water, sewer and broadband; (4) providing premium pay to essential workers; and (5) replacing lost public sector revenue (Department of Treasury, 2021).

The funds for local governments are unique in several other ways. ARPA sends funds directly to counties and metropolitan cities, limiting state control over local investment choices. Local governments have an extended 4-year period to spend the funds, thus providing longer term fiscal relief. Local governments have wide latitude in how they can invest the funds, but using them for tax cuts or to pay down debt is not allowed. With respect to infrastructure investment, ARPA articulates a preference for public sector ownership (not privatization) in infrastructure projects, and requires strong labor standards (e.g., offering wages at or above prevailing rates) (Department of Treasury, 2021). By providing funds directly to local governments and directing their expenditure toward economic dislocation caused by COVID, the federal government was seeking to expand the frame for local government responses beyond austerity.

Local Responses

To better understand how the shifts represented by ARPA are impacting local governments, we conducted a series of focus groups from June 2021 to September 2021 with local government associations nationally and in New York State to explore the following questions: How is your local government weighing short-term vs. long-term priorities for the funds? Is your local government considering addressing structural barriers or inequities in service provision or finance? And, What challenges is your local government facing in accessing or utilizing the funds? Three focus groups were held – one nationally with representatives from cities and counties from all regions of the US, and two in New York State (one before and one after the first tranche of funds arrived) with officials from a range of city, county and village governments. Four to six local governments were represented in each focus group. From these focus groups, the following themes emerged: (1) local governments are prioritizing long-term investments (e.g., infrastructure) that will not require additional ongoing support, over short-term investments (e.g., plug budget gaps); (2) larger places are considering a greater range of permissible uses and are more likely to focus on addressing structural inequities; (3) some local governments were implementing special processes for citizen engagement regarding use of ARPA funds; and (4) local government officials, especially from smaller rural places, were concerned about bureaucratic red tape in accessing and using ARPA funds, but this concern declined after local governments received their first tranche of funding in August 2021.

Drawing insights from the focus groups we designed questions for a national survey of local governments. We partnered with the International City County Management Association (ICMA) in September 2021 to send surveys to local government chief administrative officers to assess their priorities and planned uses for the ARPA funds. Surveys were sent via email link to 3,271 cities and counties from across the US. 589 local governments responded for a response rate of 18%. The sample included a range of governments. Larger cities and counties, which were direct recipients of funds, were the largest group of respondents, but a quarter of respondents were from smaller communities (under 50,000) which received their ARPA funds through their states. Respondents were from all regions of the country, but those from the Southeast and West Coast were more heavily represented in the sample.

Survey results showed that most local governments were not using funds to plug budget gaps, but instead were focused on infrastructure investment. The most common priorities for using APRA funds are long-term investments, including water and sewer infrastructure (reported by 73% of respondents), public safety equipment (32%), and broadband infrastructure (30%). Water and sewer are easy to justify under the rules from the US Treasury (2021) and most communities have "shovel-ready" projects already included in their pre-existing capital plans. Exploratory factor analysis identified seven equity-based investment priorities measured in the survey. About a quarter of local governments prioritize small businesses (reported by 28%), housing and neighborhood investments (25%), COVID-19 mitigation and containment (24%), and nonprofit support (23%). Other equity-based investments were less common: support for tourism, travel, and hospitality industries (20%), family and household assistance (15%), and behavioral or mental health (14%). To evaluate which local governments are planning to adopt progressive actions as a result of ARPA funds, we aggregate these seven priorities to create an index of equity-based investment priorities (alpha: 0.76). On average governments reported 1.49 equity-based strategies, however 43% did not plan to support any equity-based approaches with ARPA funds.

Table 1 about here

We compare factors differentiating local governments that prioritize water and sewer infrastructure investments and those which prioritize equity investments. We use a multi-level model to examine factors at the local, county, and state levels that might differentiate these investment choices. We ran a multi-level negative binomial model due to the discrete and highly skewed dependent variable: equity-based investment priorities, and a multi-level logit model to differentiate local governments that prioritize infrastructure investment. Factors which might differentiate local government priorities include: strategies for planning and fund management, citizen engagement, partisan politics and local capacity. To account for the multi-scalar nature of government in the US, we include county-level measures on political mobilization and health, and state-level measures of the social safety net.

Planning and Capacity. Our survey measured two different types of local government planning. The first, *traditional plans*, aggregated two measures: local governments which used an existing capital improvement plan (70% of respondents) or strategic plan developed prior to passage of ARPA (43%). We also measured if the local government created a new ARPA/recovery-specific plan (*ARPA Plan*, 31%), as this might be more focused on equity issues given the attention toward equity generated by COVID-19 and the BLM movement.

Capacity is a challenge for many local governments. Our survey measured strategies for overcoming capacity challenges. The most common strategy is hiring or designation of internal staff to coordinate the overall planning and management of funds (*internal staff*, 35%). Other fund management strategies include: regional collaboration on a project or investment (*regional collaboration*, 34%), and hiring external consultants to assist with planning or management of funds (*external consultant*, 22%). We also control for how local governments receive the funds, directly or via the state. Thirty-two percent of our sample are larger governments which receive funds directly from the federal government (*direct recipient*) as compared to smaller governments (called non-entitlement units in the ARPA legislation) which receive funds as a pass through from state government (68%). In our focus groups, smaller governments were concerned about hold ups in funds transferred from the states, but this has not turned out to be a problem, so our measure of direct recipient is a proxy for capacity and size.

Community Engagement and Political Mobilization. Political economy and social movement theory point to the potential for a Polanyian-style push back to affect local government action (Fraser, 2011; Warner and Clifton, 2014). This could be pragmatic, progressive or anti-government (Davidson, 2020; Doussard, 2015; Skocpol and Williamson, 2012). Our survey asked if the government sponsored community engagement activities (such as surveys, focus groups) specific to recovery needs or ARPA opportunities (*community engagement*, 24%). To measure the power of citizen mobilization we include measures from both the left and the right. For progressive pressure from the left, we include a variable for cities that experienced Black Lives Matter protests in 2020. We hypothesize this could make a difference in local governments' priority for using ARPA funds. For pressure from the right, we include the percent of the population that voted for Donald Trump in the 2020 presidential election. This measure is only available at the county level.

State social safety-net. To reflect our multi-scalar model of government, we also include a measure of states' social safety-net protections. States with a stronger social safety-net could lessen the economic hardship caused by COVID-19 and make it easier for local governments to give more priority to equity-based investments. We use the pre-COVID-19 social safety-net score used in prior research to differentiate states (Warner and Zhang, 2021). The social safety-net score is a predicted factor score including whether the state had expanded Medicaid coverage for low income workers, a state minimum wage higher than the federal minimum, state support for paid sick leave, and a higher level of TANF payment in the state (Zhang and Warner, 2020).

Community Need and Demographics. Most local governments balance community needs with available resources in the context of political constraints (Davidson 2020; Kim and Warner, 2016; Jessop 2008). For community need, we include poverty rate, and percent non-white population. We also control for population size. For public health during COVID-19, we measure the increase in COVID-19 confirmed cases per 1000 population from July 1st to September 15th, 2021, to capture the latest wave of infection prior to the survey. This measure is only available at the county level.

Model Results

We ran two multi-level regression models with random intercepts by state to measure factors differentiating local governments' infrastructure and equity-based investment priorities for ARPA funds. Results are shown in Table 2. We use standardized coefficients to compare the marginal effect of independent variables.

Table 2 about here

We find important differences between equity-based investments and water/sewer infrastructure investments. For equity-based investment priorities, community engagement has the largest impact of all model variables. If there are community engagement activities specific to recovery needs, the adoption of an equity-based investment priority is 62% more likely. For water/sewer investment, traditional capital improvement plans have the largest impact, and community engagement has no effect.

For equity investments, social movement pressures and political mobilization also matter. The Black Lives Matter protest, as a movement to increase local government sensitivity to racial equity, has a positive effect on local governments' equity-based priorities (22% more likely) and a negative effect on water/sewer investments (55% less likely). However, communities within counties where more residents voted for Trump are less likely to prioritize equity investments in their ARPA spending plans (1% less likely), while being 3% more likely to prioritize water/sewer infrastructure.

Local government planning and capacity differentiate communities' priorities. Results show that more equity-based investment priorities are found in local governments which have developed a specific ARPA plan (40% more likely), have dedicated internal staff to the process (31% more likely) and engage in regional collaboration (46% more likely). None of these capacity measures differentiate water/sewer investments. Equity investments are also higher in local governments which receive funds directly from the federal government (28% more likely).

Multi-scalar governance and community characteristics also matter. Local governments in states with higher social safety-net protections, identify more social equity investment priorities for ARPA funds (12% more likely). Local governments in larger and poorer jurisdictions are more likely to report equity-based investment priorities, 16% and 2%, respectively. However, the percent non-white population and the increase in COVID-19 confirmed cases are not related to equity-based investment priorities. State social safety-net policies and community characteristics do not differentiate the likelihood of water/sewer investment.

Discussion

COVID-19 was a moment that stimulated new policy action at the federal, state and local level. In a multi-scalar government system, the federal level can help reduce disparities in social policy across the states. The COVID-19 pandemic created the opportunity to do that in unemployment benefits and family supports. Historically the US social welfare state has been primarily based on work, and benefits accrue to workers, but ARPA expanded social benefits for children and families. Additionally, the Biden administration attempted to use a well-accepted idea – infrastructure – to justify expanded "social infrastructure" investment. This is a very big shift, as the expanded Child Tax Credit moves US social rights from a focus on the worker to a focus on the family. But it didn't last. Opposition within the Democratic party (from Senators Manchin and Sinema) and from the Republican Party prevented Biden's Build Back Better plan from even coming to the floor in the US Senate. The expanded Child Tax Credit expired at the end of December 2021. But the benefits to children, in terms of improved health and school performance were captured in the data (Pullman and Reeves, 2021) and add another layer of evidence in support of more robust public health/social welfare policies in the US.

In a multi-scalar government system, the federal government is not the only level that matters. State policy also plays a critical role. The COVID-19 crisis led to policy competition across the states (Kettl, 2020; Lopez-Santana and Rocco, 2021). In some states this has undermined public health and economic recovery. However, states with more generous social safety-net policies were more likely to promote public health measures early in the pandemic (before vaccines became available) and this saved lives (Zhang and Warner, 2021; Zhang et al., 2022). In our survey data, we find local governments in these states are also more likely to prioritize equity-based investments under ARPA.

Underinvestment in infrastructure is a long standing problem in the US, as the federal government has moved away from Keynesian investments. Water and sewer remain primarily in local government ownership despite political discourse around privatization (Warner, 2021). Deferred maintenance is a growing problem and most communities need to replace or upgrade their water and sewer systems. Under both ARPA and the IIJA physical infrastructure is prioritized, but so too is public ownership. Priority is also given to investing federal resources in underserved communities. Despite efforts to include affordability protections, they were not included in either bill. Unlike other countries around the world, the US does not ascribe to a human right to water or guaranteed minimum allotment for low income households. But during COVID-19, 35 states imposed moratoria on water shutoff for low income households (Zhang et al., 2022). While such protections did not make it into Federal Law under ARPA or the IIJA, the shift – to see water as linked to public health, not just a commodity – was reflected in state level policy discourse, at least during the first year of the COVID pandemic.

At the local government level fiscal constraints during the first year of COVID-19 led some cities to cut services and furlough staff, but with ARPA the picture radically changed, with significant additional funds for investment. Our nationwide survey shows funds will be invested primarily in water and sewer projects, but also in social equity investments, especially in cities with more citizen engagement and planning capacity.

This brings us to other key sources of policy change, political mobilization and pragmatic municipal responses. Perspectives highlighting austerity policies have deemphasized the agency that local citizens and local governments can exercise (Peck, 2014, Donald et al., 2014). This is despite evidence that after the Great Recession, US local governments engaged in more pragmatic municipal responses, such as raising revenue to avoid service cuts (Warner et al., 2021). Additionally, during COVID-19, the Black Lives Matter movement helped push cities to shift their priorities toward social protection. Polanyian-style pushbacks may help articulate citizen expectations at the local level. Local governments have always been primarily service organizations, and citizen trust in local government is higher than in any other level of government (Hendrix, 2019). Expanded service delivery may subtly shift notions of the role of government and the expectations of citizens. While the shifts toward investment in public health may be short lived, the investments in infrastructure are longer lasting. The ARPA program itself has a four year duration, and the IIJA, which passed with bi-partisan support in fall 2021 ($1.2 trillion), extends to 2026. As with ARPA, the IIJA does *not* privilege private investment, but instead places public ownership at the center. While infrastructure may not be as equity-promoting as direct equity investments, both bills give some priority to investing in underserved communities.

While the specific COVID-19 policies have not held, they have opened, for a moment, the imagination of new possibilities. This subtly helps shift policy frames (Martin et al., 2022) By embedding programs in the Federal tax code, and raising the floor but still allowing state variation, these expansions in the social welfare state were intended to encourage longer term buy-in. Indeed, three conservative southern states expanded the duration of their unemployment insurance. Even short term extensions lay the foundation for a shift in expectations. Surveys show broad popular support for social investments in early care and education, health care access and paid family leave (Newport, 2021). Policies build incrementally (March and Olsen, 1996) and COVID-19 added a new layer. Parts have already melted away (Child Tax Credit, Expanded Unemployment Benefits) but other parts are more long lived (ARPA and IIJA).

The layering of policy change, shifts in expectations and possibilities, and shifts in the economy can create openings for progressive change. For example, the COVID-19 era unemployment benefits laid a national foundation for a $15/hr minimum wage ($600/wk benefit = $15/hr). Labor shortage, stimulated by worker reluctance to take risky jobs during COVID-19 and frustration with workplace conditions has led to a "great resignation," which has put further pressure on the employers. Minimum wages have risen in actuality, even though federal minimum wage policy has not. During COVID-19, the federal government assumed more of a role in health care, social supports and intergovernmental aid. In this way, ARPA helped mend the "broken fiscal federalism" of the post Great Recession period (Xu and Warner, 2022). This shift towards Keynesianism has also been growth promoting, challenging neoliberal notions that fiscal contraction could be justified as expansionary (Martin et al., 2022). While inflation threatens to drown out recognition of the growth effects, given the US economic development-focused social welfare convention (Chiapello and Knoll, 2021), this growth promoting effect will provide some political leverage. However, capacity constraints will temper the spatial equity effects (Martin et al., 2022). While ARPA opens the door to progressive action, the ability to walk through it will be determined by local capacity.

Conclusion

The pandemic crisis forced a shift toward Keynesian investments in public health and social welfare. The CARES Act focused heavily on propping up the private sector, but it also opened the door to an expanded conception of the role of the state in supporting households (via direct payments) and workers (via expanded unemployment insurance). Had it stopped there, it would have been mostly evidence of the neoliberal state at work – austerity used to further capture the state for private sector interests (Streek and Mertens, 2013). But ARPA, passed a year later, shifted government action toward supporting households, especially those with children, and toward state and local governments.

The COVID-19 pandemic created a moment for new policy action at the federal, state and local levels. CARES and ARPA represent a slight shift in the role of the federal government in expanding social protections and citizen expectations of the state. As the floor for social benefits across states was raised, even if only for 2021, this also led to a national discussion of the relative magnitude of state differences and their implications for racial inequity (Hahn et al., 2017; Pratt and Hahn, 2021). While some states ended unemployment benefits early, other states have used the COVID-19 crisis to push policy in more progressive directions.

At the local level, governments now have flexible funds that can be used for new investments. Our analysis shows local investments will be primarily pragmatic, but some cities will use ARPA funds to support progressive action. Since the Great Recession, scholarly emphasis has focused on corporate capture and reduction in citizen expectations of the state, but COVID-19 has increased citizen expectations of the state and the potential for an expanded state response.

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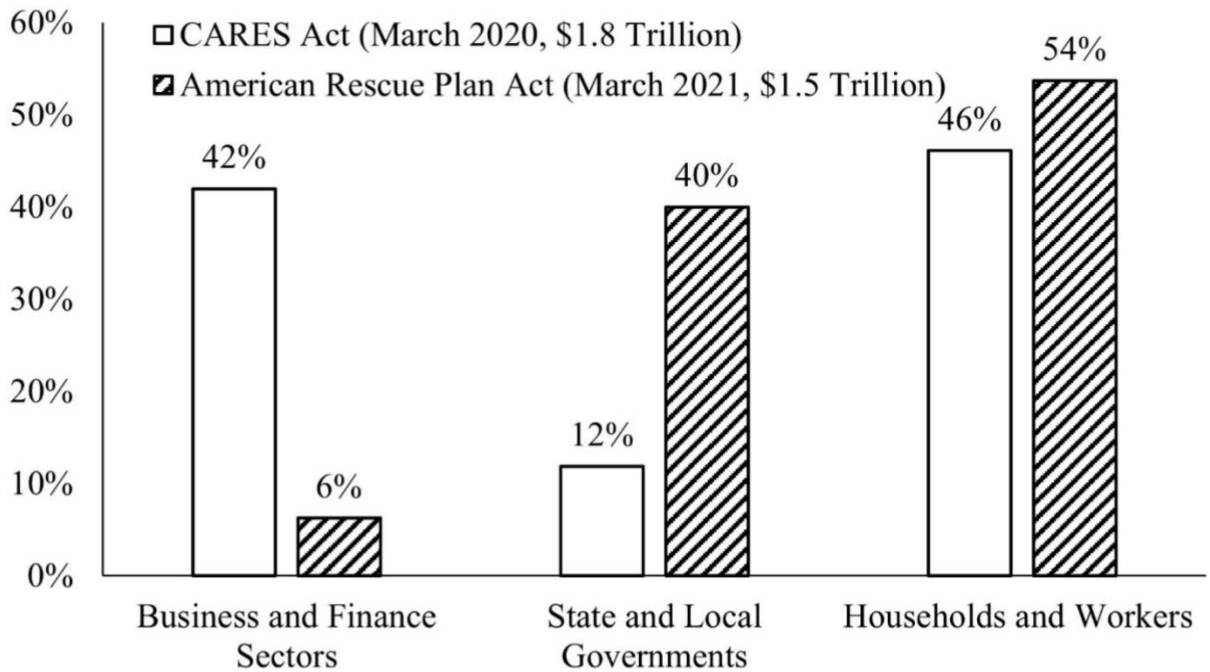
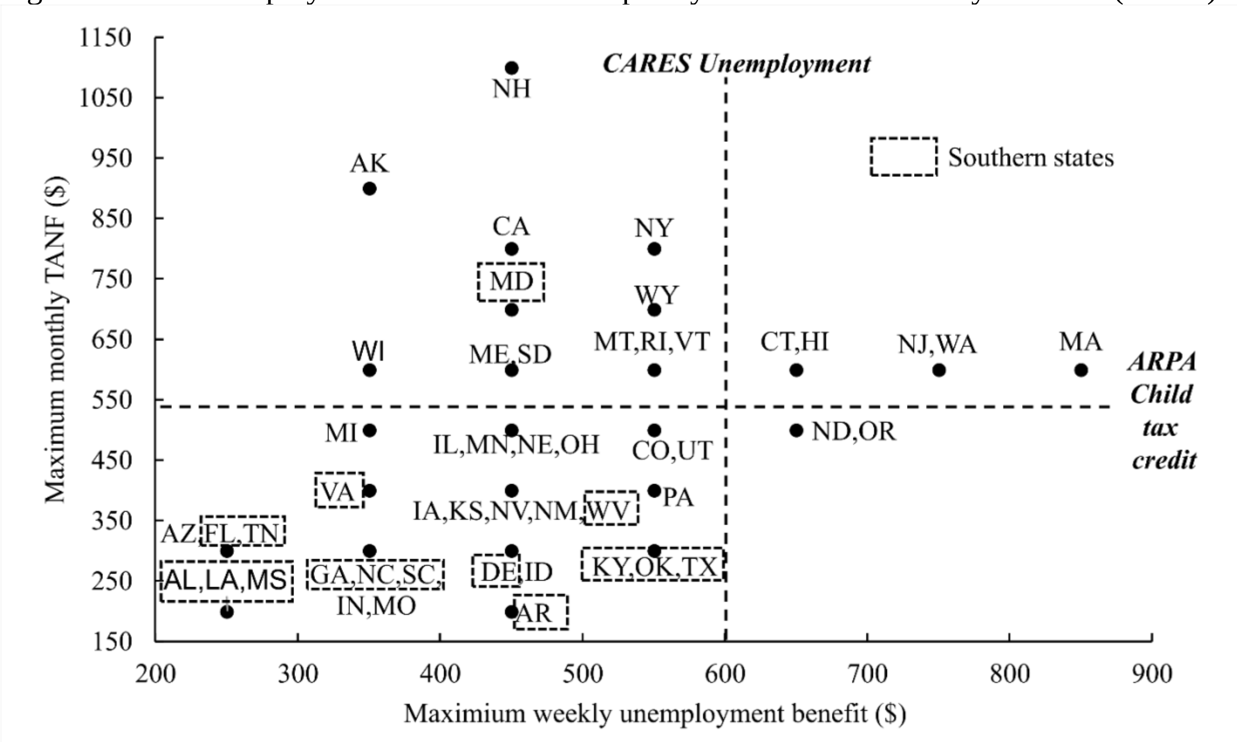
Figure 1. CARES and ARPA Funding Allocation by Primary Recipient Type



Author Analysis based on data from Committee for Responsible Federal Budget (2021).

Figure 2 State Unemployment Benefits and Temporary Assistance for Needy Families (TANF)



Author Analysis based on data from Raifman et. al.(2020), Urban Institute Welfare Rules Database (2020).

Table 1: Descriptive statistics: ARPA spending priorities of US local governments, 2021

Variables	Mean	Std. Dev.	Min	Max
Water/Sewer investment priority (yes = 1)[1]	0.73	0.45	0	1
Equity-based investment priorities (7 elements)[1]	1.49	1.81	0	7
Planning and Capacity				
Traditional Plan (2 elements) [1]	1.13	0.75	0	2
ARPA plan (yes=1)[1]	0.31	0.46	0	1
Internal staff (yes=1)[1]	0.35	0.48	0	1
Regional collaboration (yes=1) [1]	0.34	0.47	0	1
External consultant (yes=1)[1]	0.22	0.41	0	1
Direct recipient (yes=1)[1]	0.32	0.47	0	1
Community engagement and political mobilization				
Community engagement (yes=1)[1]	0.24	0.43	0	1
Black Lives Matter protests (yes=1)[3]	0.23	0.42	0	1
Voted for Trump in 2020 (%)[4]	50.83	15.70	8.73	89.08
State social safety-net factor score[6]	-0.02	1.10	-1.42	1.95
Community Need and Demographics				
Total Population (ln)[2]	9.59	1.39	5.13	14.31
Poverty rate (%) [2]	12.05	7.78	0.47	47.50
Percent of minority population [2]	26.84	20.99	0.68	96.42
Increase in COVID-19 confirmed cases/1000 population from 07/01/21 to 09/15/21[5]	23.62	14.39	0	79.18

N= 589 US municipalities

Data sources: [1] ICMA ARPA Local Fiscal Recovery Fund Spending Priorities Survey 2021. [2]American Community Survey 2015-2019. [3]New York Times Black Lives Matter Protests, 2020. [4]MIT Election Data and Science Lab, 2021. [5] New York Times COVID-19 Tracker, 2021. [6]Zhang and Warner (2020).

Table 2: Model Results: Local government equity and infrastructure investment priorities under ARPA, 2021

Variables	Equity-based investment priorities [a] IRR	Water and sewer infrastructure [b] IRR
Planning and Capacity		
Traditional Plan (2 elements) [1]	1.07	1.78**
ARPA plan (yes=1)[1]	1.40**	1.41
Internal staff (yes=1)[1]	1.31**	1.11
Regional collaboration (yes=1) [1]	1.46**	0.87
External consultant (yes=1)[1]	1.12	1.20
Direct recipient (yes=1)[1]	1.28*	0.70
Community engagement and political mobilization		
Community engagement (yes=1)[1]	1.62**	0.77
Black Lives Matter protests (yes=1)[3]	1.22*	0.55*
Voted for Trump in 2020 (%)[4]	0.99*	1.03**
State social safety-net factor score[6]	1.12*	0.80
Community Needs and Demographics		
Total Population (ln)[2]	1.16**	0.99
Poverty rate (%) [2]	1.02**	1.00
Percent of minority population [2]	1.00	1.01
Increased COVID-19 confirmed cases/1000 population from 07/0/211 to 09/15/21[5]	1.00	0.98
Log likelihood	-850.83	-311.39
N	589	589

[a] Multi-level negative binomial regression, U.S. Cities and counties. LR test vs. nbinomial model: chibar2(01) = 5.18, Prob >= chibar2 = 0.011

[b] Multi-level logit regression, U.S. Cities and counties. LR test vs. logistic model: chibar2(01) = 6.27, Prob >= chibar2 = 0.0061

Data sources:[1] ICMA ARPA Local Fiscal Recovery Fund Spending Priorities Survey 2021. [2] American Community Survey 2015-2019. [3] New York Times Black Lives Matter Protests, 2020. [4] MIT Election Data and Science Lab, 2021. [5] Bureau of Labor Statistics, 2021. [6] New York Times COVID-19 Tracker, 2021. [7] Zhang and Warner (2020).

Note: * p<0.05 ** p<0.01