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Testimony: We must ensure collective well-being and economic security in the Commonwealth

Testimony by Marie-Frances Rivera, President of MassBudget, for the House and Senate Ways and Means Committees, the Joint Committee on Revenue, and the Executive Office of Administration and Finance (originally scheduled for April 7, 2020. Due to technology challenges at the State House, postponed until Tuesday, April 14th).

Thank you Chairs. Michlewitz and Rodrigues and Secretary Heffernan for the invitation to participate in this economic roundtable to discuss the fiscal implications of the coronavirus (COVID-19) pandemic on the Commonwealth of Massachusetts.

MassBudget is a leading think tank advancing equitable policy solutions that create an inclusive, thriving Commonwealth for all.

We envision a Commonwealth where everyone has the resources and opportunities to succeed and build the life they want. Ours will be a Commonwealth in which every person, regardless of background or identity, can fully participate in building a just, multiracial democracy and benefit from the public good.

THIS IS NOT A DRILL. This is a stormy time.

We are in an unprecedented moment – a public health crisis that has catapulted us into an economic crisis.

This crisis is bringing our **interconnectedness** into stark focus. It is a moment in which **the public good** is being put to the ultimate test. A moment which is asking each of us to answer the following questions:

How do we best take care of one another? And how do we ensure that no one is left behind?

Government exists for this very moment. It is imperative we lead on the state level to support all of our 351 cities and towns, particularly hard-to-reach communities and our most vulnerable populations. Policy is the lever that we can pull to bring collective well-being and economic security to the Commonwealth.

Our policy responses to this public health and economic crisis must be swift, well-informed, equitable and at-scale.

We can only begin to get our economy back on track by making sure that the systems we rely on are in place so that everyone can return to work and to school. How? By shoring up our early education system, higher education institutions, our transit systems, small businesses, and by providing cash grants and/or Unemployment Insurance (UI) to everyone in our state who needs it, regardless of their immigration status.

And we can do this by making sure that we capture all of the revenue we have available to us and use it to see struggling people and businesses through the tough times ahead, while also laying the groundwork for a strong recovery.

We are offering what we hope are helpful observations of how recent past recessions have impacted tax revenues. We have looked at how those patterns, if repeated, would impact tax collections in the coming months. It is a 30,000 foot look, but one we feel can be useful in considering the potential scale of the problem the Commonwealth could face in the current and coming fiscal year.

I'll also share information on how the federal stimulus packages can help shore up the revenue shortfalls we're certain to see and what we can do on the state level to ensure a just recovery here in the Commonwealth.

STATE TAX REVENUE

Let me turn now to our numbers, all of which are based on Department of Revenue (DOR) tax collections data and Consensus Revenue Estimates (CRE):

These numbers do *not* include non-tax revenue.

MassBudget examined the tax data from the last two decades and found the following:

- Two recessions occurred during this period. Our analysis finds that in the first year following the onset of each recession (so, Fiscal Year [FY]2002 and FY2009), inflation-adjusted tax collections fell by **16.1 percent and 13.8 percent**, respectively. And, the year following this initial drop saw limited growth in collections. In each instance, inflation-adjusted collections did not return to their pre-recession levels for another five years.
- Were this pattern to recur now, **FY2020 final tax collections would fall \$4.2 billion to \$4.9 billion below FY2019 collections** (the last full year of actual data). Additionally, with limited growth in FY2021 (similar to the pattern observed in recent prior recessions), budget writers would not have available the \$862 million of growth built into the FY2021 CRE amount of \$31.151 billion. This means that FY2021 tax collections could fall some \$5.0 billion to \$5.7 billion short of the current FY2021 CRE.
- These are large numbers. And while I stress again that we are not saying this pattern necessarily will occur again now, we are noting that such declines are by no means out of the question. Such sharp and persistent declines in tax collections have occurred in each of the last two recessions and very well could again.

CURRENT ECONOMIC CONTEXT

Our state budget and the tax collections that support it always live in a larger economic context.

Unemployment and Gross Domestic Product (GDP) data are helpful guides to provide this greater context. Notably, recent data on unemployment claims and expected declines in the nation's GDP **do not** suggest to us that the outlook for our state or national economy is *less fraught* than it was at the start of the previous two recessions in 2001 or 2008.

To the contrary, some of the numbers we are seeing are very concerning:

- National unemployment claims have already reached the peak level seen at the height of the Great Recession – with some 10 million claims filed – and that's just two short weeks into this pandemic.
- One of our national partners, the Economic Policy Institute, is estimating that almost **20 million workers** nationwide will lose their job or be furloughed by July.
- In Massachusetts, estimates are that there will be close to half a million laid off or furloughed workers by July, a drop of over 14 percent in private-sector employment in just a five-month period. For purposes of comparison, the worst five-month decline in private sector employment in Massachusetts during the Great Recession was 2.4 percent or some 78,000 jobs.

- Turning to GDP, Goldman Sachs recently forecast a drop in **U.S. GDP of 9 percent** in Quarter (Q) 1 of 2020, followed by a **Q2 decline of 34 percent. Those are huge drops.** By comparison, the peak decline during the Great Recession (Q4 in 2008) saw a drop in **U.S. GDP of 8.4 percent. While Goldman Sachs sees a strong rebound in the second half of 2020, this assumes that the public health crisis – the underlying driver of all the downstream economic and fiscal challenges we face – passes quickly.**
- Is it possible the COVID public health crisis will pass by mid-summer and an additional large federal stimulus package will have the U.S. economy back up and humming along by the fall? Perhaps. It appears quite likely to us, however, that very substantial economic impacts will last through 2021 and beyond. Finally, I will note that data compiled by the Center on Budget and Policy Priorities, shows other states are expecting double-digit declines in tax collections, including Vermont (a 14% drop), Michigan (a 4 to 16% drop), New Mexico (a 20 to 27% drop), and New York (a 9 to 17% drop).

STATE SOLUTIONS

What are some of our takeaways from these numbers? Though much less dire outcomes are possible, the losses we calculate here are large and have happened before. It would be prudent to **plan for the worst and hope for the best.**

For us, responsible planning for steep tax losses means identifying ways to limit tax losses in the near-term so we can invest in the people of Massachusetts during the immediate crisis. This lays the groundwork now for a strong and just recovery.

Toward that end, we think the first, best option to shore up tax collections is to delay, down-size or eliminate several of the largest and most wasteful tax breaks and tax loopholes in our state tax code. As examples, we would point to the following while also noting that the revenue figures we present here likely will be smaller until the economy returns to full health:

- Recoupling to provisions in the federal tax code that prevent large multinational corporations doing business here in Massachusetts from using complex accounting schemes to avoid paying their Massachusetts state taxes.
- The film tax credit, an \$80 million a year program that delivers the bulk of its credits to out-of-state production companies and high-priced Hollywood actors, and other specific industry breaks.
- The Single Sales Factor tax break that delivers hundreds of millions a year to a few special industries, which together have slashed jobs by the tens of thousands over the last two decades.
- And the yet-to-be implemented new state charitable deduction that will cost \$300 million each year. Almost half of the tax benefit from this deduction will go to households with over \$1 million of annual income.

These are only some of the most obvious options. There are many other examples we can point to.

FEDERAL STIMULUS RESPONSE & THE RAINY DAY FUND:

During recessions, when revenues decline, states either cut spending (including by laying off workers), raise new revenue, or both. By contrast, the federal government can spend more than it takes in. That's a critical power during economic downturns, allowing the federal government to spend at a time when the private sector is scaling back, keeping the recession from getting worse.

To be clear, we believe the **federal government** should and must do far more to support state budgets, immediately and during the coming several years. Massachusetts will want to access every federal dollar possible. **Currently, the Center on Budget and Policy Priorities is estimating that the federal government will provide Massachusetts with some several billion through a combination of the three stimulus bills passed**

thus far. It is less clear how much of this will be available to the Commonwealth to offset state tax losses in the state budget. The extent of direct federal relief and restrictions on how this relief can be spent is still not clear.

In the short-term, we will need to draw on our Rainy Day Fund to ensure that vital services are fully funded, as rising needs demand, with a special focus on vulnerable populations throughout our state.

IN CLOSING:

At a time when a significant number of people are out of work and are unable to afford housing and basic necessities. When our students are experiencing learning loss and missing a sense of community with their schools being shuttered. Now is not the time to default into austerity mode. We must utilize all the tools in our toolbox to ensure collective well-being and economic security of all as we

- Look to close unhelpful tax loopholes on the state level.
- Press on our federal delegation for additional stimulus funds.
- Utilize the Rainy Day Fund.

With the end goal being to support our communities, vulnerable populations and those overlooked by federal relief efforts.

Thank you for considering my testimony.

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