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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 (delivered Tuesday, April 14th).

Thank you Rep. Michlewitz, Sen. 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. And, thank you for live streaming this, despite the challenges.

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.

OPENING THOUGHTS:

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 and society back on track by making sure that systems are in place to ensure that everyone has the basics (food, shelter, medical care) for themselves and their families now. We can do this by providing direct cash payments, expanded paid sick days, and unemployment benefits to everyone in our state who needs them, regardless of immigration status. And, we can send emergency funding to municipalities disproportionately impacted by the virus.

We must support people through these incredibly difficult days and once the immediate crisis has passed, help move our state into recovery. The eventual road to recovery will require creating access to the jobs of the future, ensuring schools have all of the resources they need to support our young people when their doors reopen, and supporting small and minority owned businesses and workers as they get back on their feet.

And, we can do much of this through our state budget. By capturing **all** of the revenue available to us -- we can use it to see people and businesses through these tough times, while also laying the ground for a just recovery.

We are offering what we hope are helpful **observations** of how recent past recessions have impacted tax revenues and how those patterns would impact tax collections, if they were repeated in the coming months. Ours 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 disaster relief packages have and can continue to help shore up the state tax revenue shortfalls that we'll certainly see and what we can do on the state level to ensure a just recovery here in the Commonwealth.

STATE TAX REVENUE:

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

- There were two recessions that occurred during this period. Our analysis finds that in the first year following the onset of each recession (so, FY2002 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.
- 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).
- 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 US GDP **do not** suggest to us that the outlook for our state or national economy is *better* than it was at the start of the previous 2 recessions in 2001 and 2008.

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

- Between March 15 and April 4, 16.8 million workers applied for unemployment insurance (UI), according to the latest Department of Labor (DOL) data. That means that in those three weeks alone, more than one in 10 workers have applied for UI benefits. The labor market has been upended.
- For a benchmark, this is as if the entire adult population of Michigan, Minnesota, and Wisconsin applied for unemployment insurance in the last three weeks.
- National unemployment claims have already reached the peak level seen at the height of the Great Recession.
- It's worth noting that UI claims **do not** include many workers who are out of work due to the virus, so the actual number of people out of work is higher than this latest data show us.
- When I prepared this testimony last week, our team of analysts pulled figures on unemployment claims and projections for Massachusetts. We found estimations that said there could be about half a million laid off or furloughed workers by July. Now, the latest numbers are showing that the sum of initial claims for the four weeks ending April 4 is already approaching half a million (476,906).
- 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 **US 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.
- *It is possible the COVID public health crisis may pass by mid-summer and an additional large federal disaster relief package will have the U.S. economy back up and humming along by the fall. But it appears quite likely to us that very substantial economic impacts will last through 2021 and beyond.*

STATE SOLUTIONS

What are some of our takeaways from these numbers? Though much less dire outcomes are possible, the economic 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 potential steep revenue declines means identifying ways to limit tax losses in the near-term so we can invest in the people of Massachusetts during the immediate crisis and lay 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. (I also note that the figures I'm presenting 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 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 actors.
- The Single Sales Factor (SSF) tax break that delivers hundreds of millions a year to a few special industries, which together have cut jobs by the tens of thousands over the last two decades.
- And the yet-to-be-implemented 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, just half of one percent of all state filers.

These are only some of the most obvious options. There are many other examples we can point to. Also, we will need to draw on our Rainy Day Fund to ensure that vital services are fully funded to meet rising demand with a particular focus on helping our state's hardest hit populations. \

FEDERAL DISASTER RELIEF RESPONSE:

During recessions, when revenues decline, states either cut spending, 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, to keep the recession from getting worse.

To be clear, the scope and scale of the economic downturn suggests that the federal government should and must do far more to support state budgets, immediately and during the coming several years. The federal legislation already passed will provide some direct fiscal relief to the state, but this will not be enough. An increase in the Medicaid reimbursement rate (FMAP) will bring in over \$1 billion, and the Coronavirus Relief Fund will also provide more than \$1.6 billion that will help the state budget. Massachusetts will certainly want to access every federal dollar possible, although it is less clear how much of this will actually be available to the Commonwealth to offset state tax losses in the state budget.

This is a time when a significant number of people are out of work, our students are experiencing learning loss, people are unable to afford housing and basic necessities. People around the Commonwealth are dying and unable to access basic necessities. This is particularly true in our Gateway Cities like Chelsea and Lawrence. Now is not the time to default into austerity mode.

We must utilize all the tools in our toolbox:

- Look to close unhelpful tax loopholes on the state level.

- Tap into our Rainy Day Fund,
- Press the federal government to provide significant additional disaster relief and recovery funds.

Our end goal should be to support low-and moderate-income households and communities of color in our state, including children, older adults, and immigrants who are dealing with COVID-19 layered on top of the structural racism embedded society.

This is an unprecedented crisis that requires unprecedented responses.

Thank you for considering my testimony.

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