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THE CENTER FOR STATE POLICY ANALYSIS

CREATIVE WAYS FOR MASSACHUSETTS TO PROVIDE ECONOMIC AID

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EXECUTIVE SUMMARY

With the economy in turmoil and unemployment spiking, businesses and families across Massachusetts need emergency aid. Unfortunately, the state can't easily provide that support because it faces its own crisis: a budget shortfall likely to be measured in billions of dollars.

There's no simple way to square this circle. Unlike the federal government, Massachusetts has to balance its budget every year, which means any substantial aid package would require new taxes, offsetting program cuts, or a withdrawal from the state's rainy day fund.

To meet these competing demands — assisting struggling residents and businesses while also addressing widening budget deficits — Massachusetts lawmakers need to think creatively about how to channel support to those who need it most.

This policy brief draws on discussions with economists and state budget experts to help identify some potential approaches. The

findings are provisional — sketches of potential paths rather than fully fleshed-out proposals — but hopefully they can help lawmakers map the broader universe of possibilities.

Among the options:

- *Ease regulations for small businesses* by creating a deregulatory commission focused on hard-hit sectors like retail and restaurants.

- Set up a *Covid recovery fund*, leveraging future tax dollars to provide timely assistance to those in need.

- Offer *immediate rent relief*, with loans to renters and long-term tax breaks for landlords.

- Give cities and towns *more latitude to borrow*, thus limiting cuts to local services.

- Apply a *one-time surtax on excess profits*, so that thriving businesses can help ensure a broad-based recovery.

- Temporarily *increase the income tax*, while also providing rebates to maximize the benefit to lower-income families.

- Deliberately *embrace "pseudo-deficits,"* borrowing across fiscal years to avoid austerity.

The ensuing sections describe these proposals in greater depth, before concluding with a list of additional options.

We also lay out some of the grounding principles lawmakers can consider when grappling with budgetary trade-offs.

MAKING TOUGH DECISIONS

Faced with complex choices — like weighing the urgency of economic aid against the state's real budgetary constraints — it can be helpful to reflect on broader decision-making principles. Before "which approach is best?" you need to ask "what are the standards we should use to judge competing approaches?"

Think in terms of concrete trade-offs. Every spending cut is a decision not to raise taxes, just as every tax increase is a decision not to reduce spending. More than that, every specific cut (or tax) is a decision not to cut (or tax) something else. This means the virtues and risks of every budgetary decision have to be considered against the alternatives, including how each would affect minority groups, different regions of the state, and those hardest hit by Covid-19.

Kick the can down the road. That's usually a metaphor for irresponsible governance, and cavalier can-kicking can be a way of foisting problems onto future politicians and future taxpayers. But these are unusual times, and there are undoubtedly issues we will be better positioned to address tomorrow.

Avoid vicious circles. Just because a spending change is temporary doesn't mean its effects will be. Some things ramify, as when cuts to children's health end up damaging their long-term prospects, or when inattention to issues of racial justice fuels disaffection and distrust.

Pass costs along to the federal government. This may seem like a selfish shifting of responsibility, but the federal government's ability to run deficits gives it a much greater capacity to absorb costs — and the Federal Reserve's lending programs signal a willingness to accept more costs. Cities and towns, in particular, may need technical assistance to leverage all forms of available federal Covid aid.

Use targeted approaches, but be careful not to pick favorites. Because Massachusetts doesn't have the fiscal resources to provide meaningful assistance across all sectors and households, funneling aid to select groups will draw "why them, not us" critiques. Blunting such concerns requires a carefully organized process with real transparency.

Don't cause harm now to avoid potential harm in future. Perhaps the best example would be underutilizing the rainy day fund and opting for larger program cuts. Just consider the cost and benefits. Preserving more of the rainy day fund helps avoid potential cuts in the years ahead. But avoiding these hypothetical, future cuts requires real cuts right now — which seems a poor trade. This isn't necessarily a reason to drain the rainy day fund for FY 2021, but it does mean decisions about how much to use should carefully weigh today's definite needs against tomorrow's potential ones.

CREATIVE APPROACHES TO ECONOMIC AID

A deregulatory commission for small businesses

Perhaps no part of the economy has been hit harder than Main Street. At the outset of the Covid-19 pandemic, many retailers, restaurants, and small businesses were forced to close; now, they are being asked to reimagine how — and whether — they can safely serve clients.

Loans and grants from the federal government have helped limit the damage, but Massachusetts might pursue an approach with smaller direct costs: regulatory relief.

To begin, the state could set up a bipartisan commission focused on deregulation for genuinely small businesses — perhaps those with fewer than 50 employees. Covid-related health regulations would be protected but other rules might be eased.

As examples: restaurants might get more latitude to setup outdoor seating and serve liquor; convenience stores could choose to suspend in-store bottle redemptions; retailers would be permitted to go fully cashless or use clear signage rather than strict item pricing; and looser licensing requirements could make it easier for displaced workers to take up new trades and careers.

Having identified appropriate types of regulatory relief, the commission could present a package of proposed changes to the legislature for an up-or-down vote.

On a separate track, executive agencies can waive time-consuming reviews and temporarily cede some control to cities and towns, allowing them to set looser rules for small business operation.

A Covid recovery fund, financed by future tax payments

Building on a proposal from California lawmakers, Massachusetts could create a multibillion-dollar Economic Recovery Fund whose proceeds would be spent on small businesses, rental assistance, local government relief, issues of racial equity, and beyond.

To raise this money, the state would allow businesses and individuals to prepay some of their likely income tax liabilities for the coming decade. In return, participants would get tax credits plus a small incentive for fronting the money (they could then trade these credits on a secondary market to manage liquidity).

This approach represents a kind of tax "smoothing," where future tax dollars are pulled forward to a time of greater need (right now). It's the same principle that underlies the state's rainy day fund, only in reverse; instead of setting aside tax dollars for future use, we'd pre-use tax dollars from the richer economic years ahead.

To ensure that participating companies and individuals don't get too big a tax advantage, the program would have to be carefully calibrated.

But the money could help families, stabilize the economy, and improve growth prospects over the long term.

A fix for renters and landlords

Another California-led proposal worth considering is a call for the state to backstop rental relief by offering support for both tenants and landlords.

Any renter at risk of missing a payment could get state-backed rent reduction and eviction protection, in exchange for a commitment to repay missed rents (to the state) over 10 years.

Meanwhile, landlords who offer appropriate rent relief would get offsetting tax credits from the state, fully transferable and spread over that same 10-year period.

The effect is to make the state into a unique kind of third-party lender, where both the payouts (to landlords) and the payback (from renters) are distributed over a decade to minimize the immediate budget impact.

Looser rules for municipal borrowing

Generally, cities and towns aren't allowed to cover their deficits with borrowed money; and if they must, the state often exacts a steep price in terms of lost autonomy, with local decision-making power handed to a fiscal overseer or outside control board.

Today's municipal budget woes have little to do with governance failures, however; it's about the Covid-driven downturn.

Recognizing the current bleak circumstance, the state could give municipalities broader borrowing authority, allowing them to issue deficit bonds to compensate for local revenue declines and shortfalls in state aid. Concerns about potential over-borrowing might be addressed by placing broad limits on the scale of any loans or by requiring approval from the Department of Revenue — without the threat of state takeover.

More narrowly, Massachusetts could empower cities and towns to refinance some of their current debt, as a way to push debt service costs further into the future.

CREATIVE APPROACHES TO STABILIZING THE BUDGET

A one-time surtax on excess corporate profits

Brutal as the Covid crisis has been for the economy as a whole, some businesses have actually benefited: Car insurers have fewer claims to pay out; grocery stores have seen a surge in sales; and substantial gains have accrued to many e-commerce platforms, food delivery services, and other groups finding customers in this shift from public spaces to virtual ones.

Taxing companies thriving under Covid would be another way to stabilize the budget or fund a Covid relief plan. The idea would not be punitive, as there's no suggestion of profiteering, but it's nonetheless true that the success of these companies is partly about luck — good luck for them but bad luck for so many other businesses and families who need tax-funded support from the state. A surtax would help spread that good luck around.

Operationally, one option would be to compare each company's 2021 profits against recent years and subject any excess to a surtax (with due consideration for recent capital investments). Another approach would be to follow the GILTI model, establishing a rate for maximum normal returns on invested capital (~10%), and then subjecting all additional profit to the surtax.

A temporary income tax increase

Perhaps the most straightforward way to fund economic aid — or to avoid cuts to vital programs — is to temporarily increase the state's income tax. With this approach you can raise substantial funds in a very precise way, without needing to design a new program or setup a new collection system.

However, because the state has a flat income tax, where everybody pays the same rate, many small business owners and middle-class families would be affected by an increase (whereas, with an excess profits tax or voluntary payments to a Covid recovery fund, there would be a cleaner distinction between those who can afford to pay and those who need support).

One way around this is to pair a temporary income tax increase with some kind of family rebate, where a large portion of the money goes right back to workers and middle-class taxpayers in the form of a stimulus check. Then, the combined impact of the tax increase and rebate would be more progressive, chiefly affecting residents whose incomes have remained elevated despite the recession.

To maximize the impact for FY 2021, Massachusetts could also combine a multiyear income tax increase with a one-time revenue bond. In that scenario, the state would get a bigger infusion of dollars in FY 2021, while the cost to taxpayers would be spread over a longer time frame.

As surety that the tax increase would be temporary, it could be proposed as a way to stabilize the budget until 2022, when voters will likely have the choice to introduce a millionaires tax.

Deliberate not-quite-deficits

Massachusetts may not be allowed to carry a deficit from year to year, but there are lots of deficit-like things the state can do to avoid undue austerity.

The rainy day fund already allows for a kind of deficit spending, filling gaps when the state spends more than it takes in.

There are less conventional options as well, including one currently being used to counter the deferral of tax day from April 15 to July 15. In this unusual circumstance, Massachusetts lawmakers authorized a bridge loan, which essentially allows the state to run a deficit, backed by the promise of those July dollars.

We could apply the same logic to other circumstances. If a vaccine arrives sometime next winter, and if all signs point to a banner economic year in FY 2022, the state could authorize another bridge loan to cover an FY 2021 deficit, confident that it would represent a final, one-time act to avoid program cuts.

To be sure, ongoing use of pseudo-deficits in the years ahead could indicate a potentially dangerous debt spiral. But right now, the risk of pseudo-deficits should be weighed against the alternatives, like the damage done by cuts to vital programs.

ADDITIONAL OPTIONS

There are a number of other options Massachusetts might consider in its effort to provide economic aid without buckling the budget.

Expand participation in the state's worksharing program. Massachusetts allows workers to collect unemployment benefits while still holding on to their jobs. Businesses must first submit plans to reduce employee hours, after which the state provides workers with partial unemployment to reflect those lost hours. Participation in the program could be boosted by direct outreach to businesses and simplified enrollment.

Organize a supply chain for Covid-19 essentials. Demand for masks, cleaning supplies, plexiglass dividers, and similar items is likely to rise as the economy reopens, which could lead to shortages or bidding wars among local businesses, schools, and other organizations. A central repository of information about suppliers, prices, reviews, and availability might keep the market functioning — and if not, the state could consider centralized purchasing and distribution for select products.

Consider cuts to tax expenditures. Some state spending happens through tax credits rather than direct programs. Any pursuit of budget cuts should consider both types, particularly tax spending on well-capitalized businesses or industries that have held up in the current downturn.

Defer spending on new initiatives and long-term obligations. Cuts to established programs bite harder than cuts to new ones, which could be a reason to pause things like scheduled education funding increases under the Student Opportunity Act. The same logic applies to taxes, where it might be simpler to reverse novel tax cuts, like the charitable tax deduction, than to press for tax hikes. Finally, when it comes to regular contributions to the state pension system, this may be a time when long-term prudence is hard to justify against urgent needs.

Prioritize cuts for the least needy. As an example, the state's education funding formula includes a requirement that all cities and towns get a minimum outlay of aid, regardless of town wealth and local capacity. Temporarily suspending this minimum could reduce state costs without affecting high-need districts.

Offer multiyear tax credits to encourage current investments. This might work best if aligned with the state's long-term priorities, else the credits could end up subsidizing spending by higher-income residents. Expanded subsidies for electric vehicles would be one approach. Alternatively, tax credits could be offered to minority-owned businesses as an incentive for new startups or expansions.

Allow online lottery sales. The collapse in lottery sales makes it harder for the state to fund local aid for cities and towns. Moving games online could restore some of this revenue, and reserving scratch tickets for convenience stores would blunt the impact on local businesses.

Find a compromise on liability protection for small businesses. Having to reopen in a world of contagion and uncertainty puts businesses in a difficult position, particularly small businesses with little financial cushion. Providing reasonable and time-limited legal protections for good faith operation could prop up private-sector activity, provided it's paired with clear safety standards and additional protections for workers, such as enhanced workplace inspections and secure avenues for employee complaints.

CONCLUSION

There may be no such thing as a free lunch, but there is a range of more and less affordable ways to nourish residents during this crisis. And given the dire condition of the state budget, Massachusetts has to be deliberate — and creative — about its approach.

The list of options in this policy brief is meant to spur thought and discussion rather than provide concrete or actionable proposals. However, we at the Center for State Policy Analysis would be eager to flesh out any one, or any several, to estimate the full costs, potential revenues, and likely impact.

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